Market Facing Complete Reconversion ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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MID-YEAR 1945

Re-Appraisals of Earnings and Dividend Forecasts

OUTLOOK FOR ALL LEADING COMPANIES

UNDER TRANSITIONAL ECONOMY IN THE MAKING

PART 4

—AUTOMOBILE INDUSTRY—
RAIL AND FARM EQUIPMENTS
MISCELLANEOUS SECURITIES

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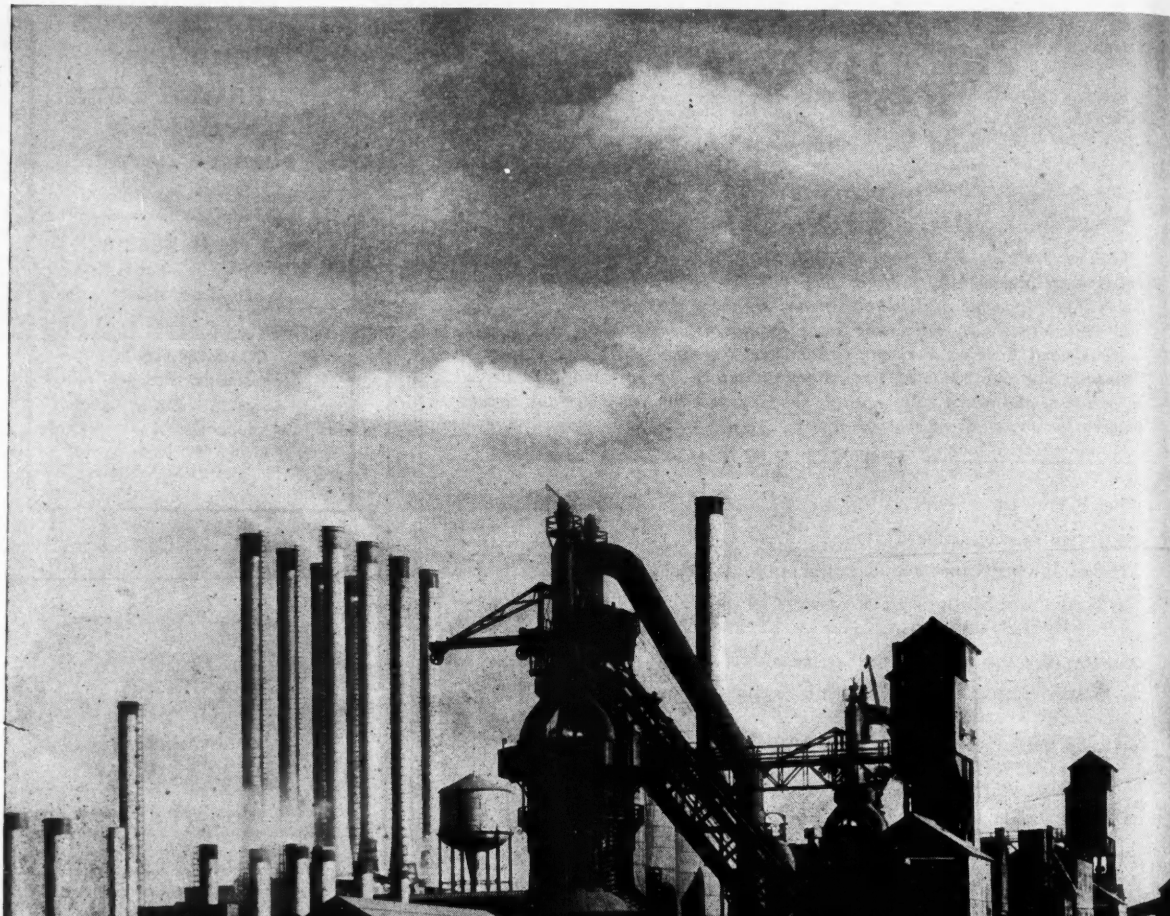
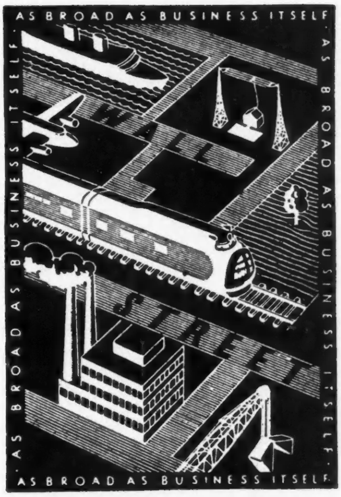


Keystone View Photo

The American automobile industry has been one of the major contributors to our war effort, producing an annual volume of war goods in excess of $10 billions. It has kept up the good work till the very last day; now it is busy reconverting. Plants such as Ford Motor Co.'s mighty River Rouge plant shown above are racing against time to put shiny new cars into the hands of an eager public. In the article beginning on page 596 of this issue, you will find a detailed analysis of the industry's future prospects, of the competitive scramble that may develop as automobile production starts.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* E. A. Krauss, *Managing Editor*



The Trend of Events

TRANSITIONAL UNEMPLOYMENT . . . Much controversy appears to surround the question of how much transitional unemployment may be expected and the wide divergence of current guestimates must be somewhat bewildering to the average man. Fairly optimistic appraisals of the outlook emanating from industrial quarters contrast with black predictions of many millions of jobless frequently attributed to certain administration and labor quarters. Thus we hear, from the latter, that we must anticipate some five to six million idle workers by the end of the year, and perhaps as many as eight million next spring; some estimates go as high as ten million in projecting maximum transitional unemployment at any one time. Industry is more sanguine and expresses confidence that such expectations are far too pessimistic. In such quarters one hears talk of no more than about 3.5 million idle by the end of the year, and a maximum of no more than five or six million, temporarily, some time next spring.

Chances are that both views are somewhat colored but the hope is that the optimists are right. Reconversion policies thus far announced have been constructive and helpful, and the prompt action towards decontrol taken after Japan's surrender seems to justify the hope that reconversion may take less time, and that the transitional recession may be less deep, than commonly feared only a few weeks ago. No one of course can be quite certain of it at this stage but unquestionably a good start has been made. Recent stock market action has reflected this impression.

It is but natural that industry wants a chance to handle reconversion without undue Government interference, wants to show what it can do in the matter of providing maximum employment as quickly as possible. It is making a tremendous effort to achieve smooth and speedy reconversion and is confident of success.

On the other hand, it may be no coincidence that pessimistic predictions frequently come from quarters that have an ax to grind,—from labor leaders who must have issues, from so-called experts in and out of Government who contend that private enterprise is outdated. In contrast, top Administration quarters appear to reserve judgment, hoping for the best but insisting on being prepared for the worst. This seems to us a sound policy in a situation where estimates at best can be mere guesses.

BRITAIN'S FINANCIAL PLIGHT . . . Washington — and we may add the public at large that is interested in such matters — was recently jolted by an unofficial London proposal that England pay half of her blocked sterling debt at fifty cents on the dollar, the money to be donated by the United States, and fund the balance into longer term obligations.

Unquestionably the proposal was a trial balloon but the suggestion, advanced by the London Economist, British financial publication, also must be taken as evidence that the British realize that they must make some sort of a settlement quickly and strike while the iron is still hot, now that the sudden termination of the war has led to quick shut-down of Lend-Lease.

Britain's blocked sterling debt is given as amounting to over £4,000,000,000, or some $16 billion. The Economist contends that at last $6 million would be required to permit settlement of these blocked balances through payment of 20% to 25% in cash. In return, owners of these balances would be expected to remit 20% to 25% of their claims, and the balance of 50% to 60% would be funded into longer term obligations. The required U. S. credit to carry out such a scheme would have to be largely in the nature of a grant, that is an outright gift, if it is not to aggravate Britain's balance of payment position. "Six billion dollars is not a large sum as public finances go in the United States these days," the Economist argued. While it conceded that "by all available indications, it would be almost impossible to carry any such proposal through Congress," it also contended that it would be a "very grave mistake" for Britain to accept a smaller sum on stiffer conditions. "A minimum of $6 billion on terms amounting to a full grant would enable us to accept the free exchange, stable rate, non-discriminating approach to the problems of international economic order. Anything else would not," the Economist added.

Lacking such a grant, the Economist suggests there would be nothing to do but to make the best possible use of Britain's bargaining power, mainly consisting of the threat of building up a sterling area (virtually shutting out non-British commerce) and maintenance of exchange restrictions, in contrast to our own ideas of free and unhampered postwar world trade.

What surprised financial observers in this country is not so much the general reasoning behind this proposal but the magnitude of the amount sought, and sought as an outright grant. Considering Britain's financial plight resulting from the way in which the Empire's participation in the war was financed, there is a measure of justification for the Economist's very blunt statement but the price demanded for postwar economic cooperation is stiff indeed. $6 billion even in the United States still is a very large sum, especially from the U. S. taxpayer's viewpoint, and what if the whole scheme doesn't work, in spite of our aid?

Our Government has clearly shown its readiness to invest large amounts to promote a return to freer world trade; the Bretton Woods agreements are a case in point. Yet the future of these very agreements and of lifting exchange controls now appears to depend on our willingness to make far greater financial contributions. It is hardly likely that such a course will be favored either by Congress or by public opinion.

Meanwhile Britain's new Laborite Government seems to be preparing to slam the door on Bretton Woods and is turning a deaf ear to our appeal for the free enterprise ideals, gratuitously labeled in labor circles as "jungle finance" and "international catch-as-catch-can methods." Even the conservative London Times, freely acknowledging that Britain is in an economic and financial jam, claims that there is a strong case for a readjustment . . . of financial war burdens . . . recognizing the equality of sacrifice principle enunciated by President Roosevelt.

Probably in the end, despite the Economist's uncompromising language, Britain may be satisfied with something less than $6 billion, may perhaps even consider a large long-term credit instead of an outright grant. But to all appearances, if we want anything approaching free postwar world trade, the price to us is likely to come high.

THE WESTERN STEEL MUDDLE . . . Recent renunciation by U. S. Steel Corporation of any peacetime interest in the big Geneva (Utah) steel plant which "Big Steel" operated for the Government during the war years, dropped that $200 million war baby back into the lap of the Government and indirectly into the lap of Henry J. Kaiser who right along has professed interest not only in continuing peace-time operations at his own RFC-financed Fontana (Cal.) plant but in the Geneva plant as well.

"Big Steel's" withdrawal from the scene came as no particular surprise in view of the opposition from Government policy makers against "monopolistic eastern domination" of western steel facilities but the step has far from clarified the outlook for western steel. Rather it seems to have complicated matters, for along with the corporation's renunciation came announcement of intention to spend perhaps $25 million for installation of additional facilities at the Pittsburg (Cal.) plant of its subsidiary, the Columbia Steel Co.

In the past, many have been wondering how the West could absorb—in peace-time—the 1,280,000-ton steel-making capacity of Geneva and the 725,000-ton capacity of Kaiser's Fontana plant, both added during the past three years to war-expanded capacities of previously established mills. Now there will be additional capacity, to be exact some 325,000 tons of cold reduced sheets and tinplate which Columbia Steel will be able to urn out after the planned new facilities are installed. Worse still, Columbia's Torrance (Cal.) steel plant may also be modernized, stepping up output.

The reported Kaiser syndicate formed to take over Geneva Steel Co. and with it most of the western steel industry to operate it as a huge western steel empire may well have to cope with keen competition if current ambitious plans reportedly including overtures for participation to Colorado Fuel Fuel & Iron Co. ever materialize. This now appears by no means certain. Obviously the new situation created by the decision of U. S. Steel requires a realistic reexamination of the entire question.

As I See It!

BY ROBERT GUISE

DE GAULLE'S VISIT

IT would be oversimplying matters to see in General de Gaulle's visit to Washington merely a French endeavor to enlist American economic and political aid in the interest of French physical reconstruction and political revival. Undoubtedly that is the broad and obvious purpose but the significance that must be read into the French leader's trip to the United States goes beyond that. It also implies an important and somewhat belated reorientation of French political thinking in the light of the new distribution of world power.

General de Gaulle's visit spells first of all recognition that only from the United States can France hope to obtain the economic and financial aid required for French rehabilitation. Quite openly, the General proposes a long range USA-French economic program to promote the permanent reconstruction of his country. But his presence in this country also marks recognition of the fact that the seat of world power has definitely shifted westwards, a realization probably greatly speeded by the advent of the atomic bomb and establishment of American supremacy in the Far East as a result of Japan's fall. French political thinking in the past occasionally chose to ignore this shift. De Gaulle at one time was inclined to political flirtation with Russia which gained him nothing but a cold rebuff. Grasping the importance of the new era, he is now facing West, apparently having decided that fostering closer relations with the United States is a better if not the only way to solve his country's most pressing problems.

Press Association

One of these, the need of economic aid to restore French industrial strength, is at the moment paramount and most immediate, and it is in pursuance of such aid that de Gaulle was probably able to advance his most telling arguments. He could point out that survival of some form of private enterprise and restoration of even a semblance of political stability in Western Europe depends in no small part on quick rehabilitation of France. He could point to the political importance of "coal" on the eve of the French elections, to the fact that in a disorganized and suffering country, one can hardly look to dispassionate and conservative voting of the electorate. In all likelihood, he could even make a case that lack of adequate and prompt aid to France might easily jeopardize his own position and bring forth a far more radical Government, one that might stymie at the very outset any effort toward organizing Western Europe on a non-collectivist basis. In short, by talking French rehabilitation, de Gaulle also talked Western European rehabilitation, both political and economic, and there is little doubt that his pleas fell on sympathetic ears. He may not get as much as he wants as quickly as he wants it, but American aid to France will be substantial. Whether it will have the desired effect remains to be seen.

As far as France is concerned, the question of economic aid is of course closely related to political aspirations, that is the desire of becoming once more a great European power. Here, too, de Gaulle can and probably will have argued the desirability of strengthening Western Europe by strengthening France, by building up a bulwark in Western Europe capable of withstanding further encroachment from the East, — if only in the social - economic sphere. In this respect, too, de Gaulle undoubtedly had Washington's attentive ear though according to press reports, he may not have gained all his points.

More specifically, French political wishes appear to center on such questions as control of the left bank of the Rhine, establishment of long-term interallied supervision over the Ruhr industrial area and recognition of French sovereignty in Indo-China. As to the latter, France—with Chinese and British troops standing on the borders of Indo-China — apparently is seeking American mediation as the least unsatisfactory solution to its foremost colonial problem. Whatever our attitude towards (*Please turn to page* 628)

Market Facing Complete Reconversion

The market reflects a considerably more hopeful sentiment but the bullish technical indications are not conclusive. While there are some very encouraging elements in the economic-political outlook, serious uncertainties remain. We believe prudently careful selectivity should be emphasized above all in investment policy.

BY A. T. MILLER

THERE has been considerable improvement in the recent action of the market. It is selective, however, rather than general; and whether the intermediate-correction phase has been fully completed, opening the way to a resumption of broad and sustained advance, is open to question.

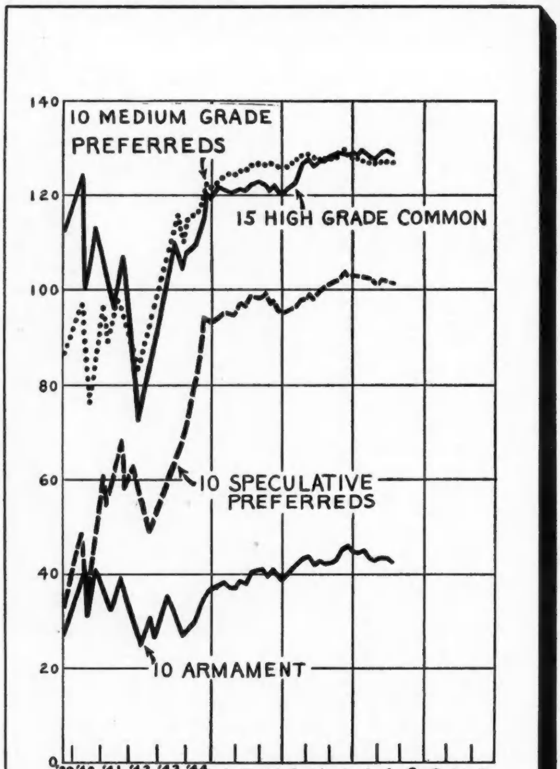
The railroad and utility averages have not yet shown very impressive rallying power; and, indeed, are still uncomfortably close to their reaction lows. Our composite index is still within the trading-range limits of recent weeks. A test of the previous high in the Dow-Jones industrial average, made in late May, has been successfully negotiated by a small margin, as this analysis is written.

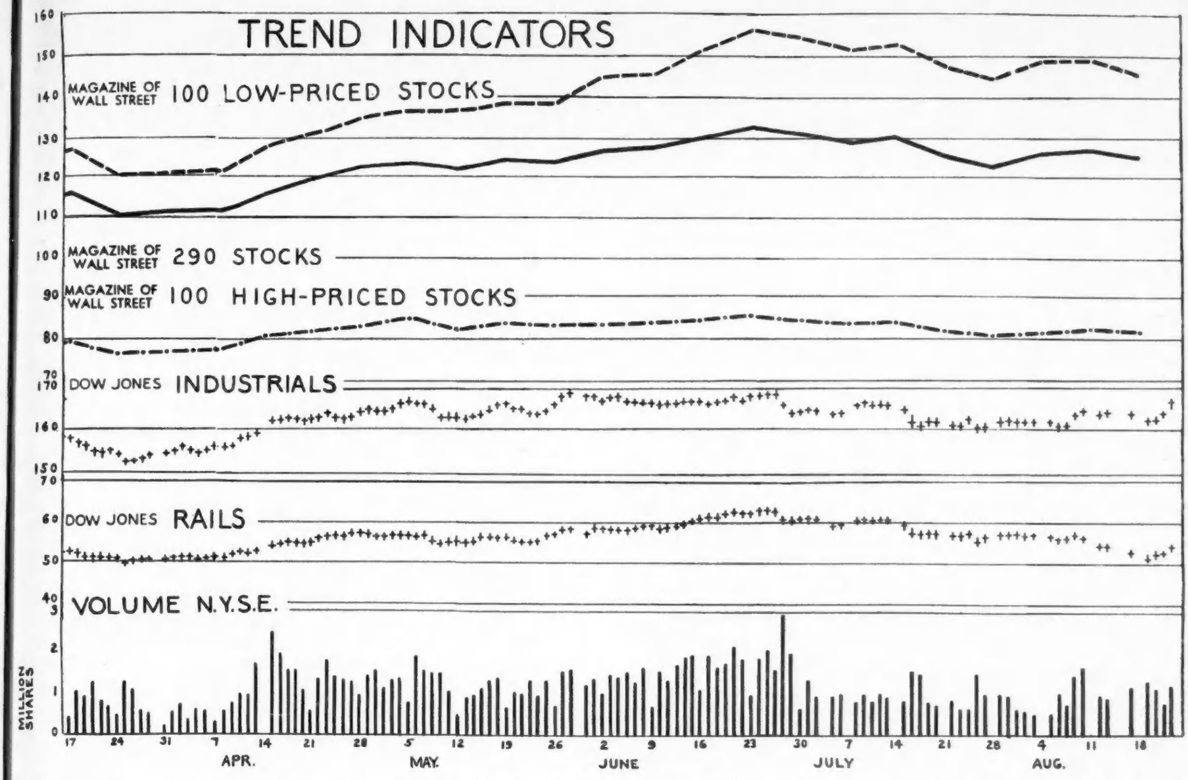
Thus the technical evidence bearing on the question of renewal of the major upward trend is not entirely conclusive. A brief review of the background is in order. Intermediate reactions usually cancel anywhere from a third to two-thirds of the preceding advance, figured from last preceding intermediate low. The Dow rail average, at last week's low, had declined about 18% from the high and cancelled about 47% of the gain from the low of September, 1944. That is a severe reaction, but still well within intermediate proportions. Whether it is over remains to be seen. Considering the over-speculation in this section during the first half of the year—also the fact that rails definitely are not beneficiaries of peace—it appears probable that the group will at any rate lag in relation to industrials. That would not necessarily preclude selective, and possibly important, advance in other sections of the market.

The Dow industrial average, Bible of numerous traders and investors, declined a maximum of less than 5% from the high and cancelled, at the July 26 low, only some 31% of the gain from the September, 1944, low. This would rank as a decidedly minimum intermediate correction. The same is true of the movement of our index of 100 high-price stocks. On the other hand, it must be conceded that the first half-year rise in the type of stocks making up these "yardsticks" was, on the whole, somewhat conservative; and that, therefore, the resultant position should require nowhere near such severe correction as has been seen in rails and other more speculative issues. So examined, the decline already seen might be enough, though it has yet to be fully proven.

Some of the non-technical considerations appear to us to be quite encouraging. The speed of the Government's moves in relaxing or eliminating wartime controls has both astonished and more than satisfied reasonably-minded business men. Reconversion is now off to a fast start. There is good reason to believe that the consumer durable goods industries will be rolling at a fast clip, and at a relatively high level, by the year-end. If that is so, unemployment may not be nearly as severe, nor last as long, as some of the more pessimistic Washington officials have predicted.

There has been considerable apprehension voiced about OPA pricing policies, in view of relaxed wage controls. How much of this is real and how much is exaggeration, for bargaining purposes, is hard to say. As a threat to profit margins, this matter does not seem to worry the market. Probably the main reason is that investors realize OPA is on its way out, expiring by statutory limitation next June. Since all types of consumer durable goods will be in normal, or larger, production within the first quarter of 1946, it is conceivable the price restrictions will be lifted, leaving control for the rest of the agency's life limited to a very few cost-of-living





items such as rents, sugar, etc. Above all, it is believed that the Administration's policy is to clear the road for business, from which it is reasoned that OPA prices on durable goods probably would be modified if that is indicated as necessary to induce the desired expansion of production.

There is another important point. With respect to corporate profits both for this year and early 1946, the timing of the end of the war could hardly have been more fortuitous. The expense of reconversion will be charged off under peak wartime tax rates, rather than under the lower rates promised for next year. The "cost" of lower volume and reduced pre-tax earnings will not only be offset by lower current tax accrual but also by recalculation of taxes accrued during the first seven months of the year, over which period earnings were excellent in the aggregate. In other words, for companies subject to any considerable reconversion-period slump, much of the taxes accrued heretofore this year will, in effect, come back into earnings. Thus, aggregate earnings for 1945 should be quite satisfactory, even though many third and fourth quarter reports may not look so good.

The consensus of opinion at Washington is that corporations will be given important tax relief, applicable to 1946 earnings, and that there will be moderate reductions in personal income tax rates. It need hardly be said that the degree of relief is uncertain, and that it will be some time before the lines of Congressional approach are drawn. There can no longer be much doubt that, at a minimum, the excess profits tax rate will be reduced. Most guesses run to 60%-70%, again a top of 95% now. For certain companies with an exceptionally favorable volume outlook, even this much change could considerably boost present earning power. There is a possibility—it can't yet be called a probability, despite its strong advocacy by the Chairman of the Senate Finance Committee, Mr. George—that EPT will be eliminated entirely for 1946. In general, there seems to be a political inclination to put tax relief—for purposes of private enterprise stimulation and votes—ahead of considerations of fiscal orthodoxy.

Against all of this, there will be continuing serious uncertainty in the public's mind about the employment problem, the scope of the decline in industrial production, the timing of the renewed upturn, the "come-down" in total consumer income and its effects on trade. There is some concern, not lightly to be dismissed, that a "lack-of-confidence" deflation spiral in consumer spending psychology may be touched off. The trade figures in coming weeks will bear watching. Also there is considerable misgiving, not unwarranted, over rumblings of coming labor troubles. Finally, more uncertainties remain in the postwar foreign scene than have been removed.

One thing we feel pretty certain about is that for a goodly time to come it is likely to remain a highly selective market: much more so than at any time since the inception of the major uptrend forty months ago. Nor is there assurance of clear sailing even for the broad averages. The situation calls for "conservative caution" in investment policy, and for more study of the industries and individual companies than of the "averages." The matter of selectivity is discussed in more detail in Part II of this article and specific buying recommendations will, as usual, be found from time to time elsewhere in this publication.—Monday, August 27.

PART 2

Analysis of Recent Security Group Movements

THE transition from war to peace inevitably means sweeping economic readjustment, affecting the industries most diversely. Some have larger earnings now than they can hope to have in peace: for example, the railroads. Some have been more or less casualties of war and face virtually automatic recovery with peace. Example: the installment finance companies. Some have more to gain from promised 1946 tax relief than others. Some have no reconversion problem at all. Others can reconvert in thirty days. One, the motor industry, may need eight to ten months to reach maximum output. Some have no peacetime prospect remotely comparable to their war activity. Example: shipbuilding. Some can eat up the "backlog" of consumer demand in a year. For others unprecedented activity appears likely for three or more years. Numerous other "divergences" could be cited.

The stock market has been trying in recent weeks to adjust itself not only to the over-all change in the shape of things—perhaps best represented by declining national income—but to the many variations in calculated, or assumed, prospects of the industries, as partially sketched above, and to the even greater variations in company prospects. The time for readjustment in investment thinking and perspectives has been limited. Perhaps some mistakes will prove to have been made—in emphasis, if not in direction, of selectivity. They usually are in a time of confusion, which drastic change necessarily causes. For instance, rail stocks have had a very severe reaction. It doesn't necessarily imply that they are good sales now. Finance company stocks have had a sharp advance since peace came into actual sight. That is no guarantee they will continue to lead such sections of the market as may advance.

On almost any day, whether the "averages" have risen sharply or taken a nasty spill, one need only look down the daily transaction tables to realize that under present conditions we have, in much more than usual degree, "a market of stocks." Valuable as they may be for generalized technical appraisals of "trend," seldom have the averages told so little of what is actually happening in the market. No one can get the whole story except by laborious study of daily variations in hundreds of stocks. Certainly it can't be told *(Please turn to page 620)*

Table 1

Group Percentage Declines From 1945 Highs to July 28

	High	July 28	% Change
Air Lines	877.5	740.5	—15.6%
Railroads	37.5	31.7	—15.4
Agricultural Implements	197.4	174.2	—11.8
Drugs and Toilet Articles	157.2	138.9	—11.6
Tires and Rubber	38.3	33.9	—11.5
Textiles	102.4	90.6	—11.5
Shipbuilding	115.6	102.3	—11.5
Furniture	98.0	87.1	—11.1
Liquor	562.5	499.9	—11.1
Soft Drinks	443.6	394.8	—11.0
Finance Companies	267.5	239.1	—10.6
Radio	32.4	29.0	—10.5
Gold Mining	1158.0	1037.7	—10.4
Meat Packing	95.1	85.4	—10.2
Aircraft	213.6	191.9	—10.1
Petroleum	167.1	150.2	—10.1
Business Machines	263.5	237.2	—9.9
Paper	23.9	21.5	—9.6
Variety Stores	287.4	260.2	—9.4
Amusements	92.3	84.7	—9.1
Automobile Accessories	235.3	214.1	—9.0
Communications	87.0	79.3	—8.8
Machinery	174.5	159.3	—8.7
Construction	53.1	48.6	—8.5
Copper and Brass	84.5	77.3	—8.5
Containers	328.5	301.4	—8.2
Sugar	68 0	62.6	—7.9
Metals, Non-Ferrous	180.3	167.0	—7.3
Rail Equipment	83.3	77.4	—7.0
Steel and Iron	100.6	94.0	—6.6
Food Stores	67.6	63.2	—6.5
Automobiles	47.0	44.0	—6.4
Food Brands	163.0	154.0	—5.5
Baking	16.6	15.7	—5.4
Chemicals	207.7	195.7	—5.3
Public Utilities	94.0	89.0	—5.3
Department Stores	54.0	51.3	—5.0
Mail Order	120.8	115.1	—4.7
Dairy Products	57.8	55.5	—4.0
Tobacco	79.0	76.7	—2.9

*All prices are indexes, 1925 close = 100, except 1927 for Aircraft, Liquor and Radio; 1926 for Baking; 1934 for Air Lines.

Table 2

"End-of-War" Selectivity Percent Changes July 28 to August 18

	July 28	August 18	% Change
Finance Companies	239.1	267.5	+11.8%
Tires and Rubber	33.9	37.2	+9.7
Construction	48.6	52.6	+8.2
Soft Drinks	394.8	423.2	+7.2
Business Machines	237.2	253.2	+6.7
Paper	21.5	22.9	+6.5
Radio	29.0	30.9	+6.5
Automobiles	44.0	46.5	+5.6
Drugs and Toilet Articles	138.9	146.6	+5.5
Variety Stores	260.2	274.1	+5.3
Automobile Accessories	214.1	224.8	+5.0
Machinery	159.3	167.0	+4.8
Agricultural Implements	174.2	182.5	+4.7
Containers	301.4	315.4	+4.6
Furniture	87.1	90.9	+4.3
Air Lines	740.5	771.0	+4.1
Food Brands	154.0	160.3	+4.1
Rail Equipment	77.4	80.1	+3.5
Metals, Non-Ferrous	167.0	172.1	+3.0
Department Stores	51.3	52.8	+2.9
Amusements	84.7	87.1	+2.8
Dairy Products	55.5	57.0	+2.7
Liquors	499.9	513.1	+2.6
Chemicals	195.7	201.3	+2.3
Mail Order	115.1	117.5	+2.1
Communications	79.3	80.8	+1.9
Tobacco	76.7	78.0	+1.7
Gold Mining	1037.7	1054.7	+1.6
Public Utilities	89.0	90.1	+1.2
Meat Packing	85.4	86.2	+0.9
Sugar	62.6	63.2	+0.8
Steel and Iron	94.0	94.1	0.0
Food Stores	63.2	62.4	—1.2
Baking	15.7	15.4	—1.9
Petroleum	158.2	147.1	—2.0
Textiles	90.6	88.1	—2.7
Copper and Brass	77.3	75.1	—2.8
Railroads	31.7	29.0	—8.5
Aircraft	191.9	170.8	—11.0
Shipbuilding	102.3	89.9	—12.1

*All prices are indexes, 1925 close = 100, except 1927 for Aircraft, Liquor and Radio; 1926 for Baking; 1934 for Air Lines.

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ECONOMIC IMPLICATIONS of Postwar Debt Policy

BY E. A. KRAUSS

FROM now on, our national debt will be increasingly in the news. As transitional and postwar policies are evolved, the wide ramifications of the Federal debt as it affects our national economy will become more clearly apparent, calling for fiscal and monetary policies themselves relating to fluctuations in business, so that consideration of the Federal debt involves also consideration of business fluctuations as a factor in appraising fiscal policy.

To the mere size and existence of the debt and to its bearing on policies of economic and monetary control may be added a third important aspect of the debt, not unconnected with the other two; namely, the position which Federal obligations have come to occupy in the banking structure. Thus consideration of the national debt involves a significant cross section of the important financial and business problems of the months and years ahead. Simultaneously, of course, it is a political problem of the first magnitude. Determination of the future of the debt lies within the power of Congress through its control of Federal revenues and expenditures though its actions and results are both affected by financial and economic factors.

Currently the Federal debt runs around $262 billion and will probably reach some $285 billion by the end of the current fiscal year. By the time the war has been fully liquidated, a total debt figure of about $300 billion is generally anticipated. This means an annual interest burden of some $6 billion or between 4% and 5% of prospective postwar national income compared with a prewar burden of 1.5%.

The existence of so large a debt is bound to have a profound influence. Not that there is any danger of the Government going bankrupt; there are many ways in modern fiscal procedure to avoid such an extreme and besides, compared with the nation's resources, our debt is hardly dangerous enough to court such a possibility. The important part is, as hinted before, that a debt of this size compels increasing Government intervention in the nation's economic system. In a sense, our debt presents the financial side of peace vital to our welfare but over which business has very little control. Without careful and efficient fiscal management, our future prosperity may be seriously jeopardized. Management of the debt will profoundly affect the country's financial and economic structure, and determine the burden of interest charges which will have to be borne by public taxation.

It all tends to bring home the inexorable fact that the war has not yet been paid for, that the money to defray the cost of war has largely been borrowed—and what has been borrowed must be paid back. It also brings home the fact that our debt is a taxpayer's debt, arising solely out of postponement of tax levies. With the war over, we must now decide how to manage that debt, whether to carry it as a perpetual indebtedness of the Federal Government, whether to plan for gradual or even quick retirement. Also there is the controversial question whether we shall further add to the debt by deliberate Government spending whenever we

run short of full employment in the postwar.

Essentially, the economic effect of the debt lies in the way it redistributes income, in who pays how much and who receives how much in the way of interest, provided such interest is paid out of taxes. Basically we are dealing with a transfer operation by which the debt interest is collected from the taxpayers and paid to the holders of the debt who are also numbered among the taxpayers. In short, the debt problem—apart from the question of retirement—consists of the necessity of collecting some $6 billion annually from some persons and paying it to others, and of the possible adverse effects of the resultant redistribution of income upon public purchasing power and the amount of gross national production. The Government is in the difficult position of having to consider both the taxpayer interest and the investor interest, and both are bound to clash. Herein lies one of the great dilemmas of postwar debt management.

The debt burden as a whole is a real one and by now has come to be generally acknowledged as such after earlier attempts in some quarters to shrug it off as of "no great importance." It is increasingly recognized that it must be a major object of postwar fiscal policy to reduce the debt insofar as this is compatible with the maintenance of a sound economy.

There are various schools of thought as to what our future debt policy should be. At one extreme end stand those who sharply oppose any tolerance of a floating national debt as a menace to a healthful economy and recommend quickest possible debt retirement, possibly within thirty years or at an annual rate of $10 billion, the funds therefor to be raised by heavy taxation including that most unpopular of all taxes, a general sales tax.

Debt Retirement

There is little chance that this view will prevail; its drawbacks, practical, economic and political, are too obvious. To pay off a debt of $300 billion in thirty years would require an annual charge of some $13.4 billion. When it comes to choosing between taxes aggregating $13.4 billion for debt retirement and $6 billion for debt service, most people will prefer the lower taxbill, especially since postwar business revival has been largely predicated upon tax reduction. Even a far less drastic debt reduction would involve a deflationary tax burden which the nation would soon vote down.

Some hold that such a drastic course would really not matter because we owe the debt to ourselves; that therefore, the demand for goods and the volume of employment would remain unchanged. Such thinking is obviously fallacious if one considers the great unbalance in debt ownership, the real nub of the debt problem.

Whether the debt becomes a crushing burden or whether it can be used for further progress depends upon who holds the debt, how much interest the various debt-owning classes will collect and how the money is raised to pay the interest. In nearby years, debt management rather than debt retirement is the important problem, and one that is intimately related to tax policies. There are various possibilities:

If debt policy involves largely heavy taxation on business profits, the effect in all likelihood will be lower employment and production, regardless of who holds the debt. The effect in short would be deflationary unless offset by inflationary compensatory measures on the part of the Government which would only further increase the debt, and the debt burden.

If the debt service is largely met by stiff surtaxes in the higher income brackets, that is on incomes of people who usually do a considerable amount of saving, and if the debt in the main is owned by many small investors, then the net effect on employment and output will be fairly negligible.

If the cost of carrying the debt is met largely by sales taxes or fairly heavy taxation of small incomes, and if the debt is held primarily by the higher income classes or by corporations, there will be an unfavorable effect on employment and output. Limitation of the purchasing power of the small-income group will certainly affect business adversely.

Record of Average Annual Interest Burden

Period	Debt ($ billions)	Avge. Int. Rate (%)	Interest ($ billions)	Nat. Income ($ billions)	Int. as % of Nat. Income
1919-21	25	4.2	1.0	65	1.6
1925-29	18	4.0	0.7	75	1.0
1938-40	40	2.6	1.0	70	1.5
1944	200	1.9	3.8	160	2.4
1945 (Est.)	285	2.0	5.7	140	4.1
Postwar (Est.)	300	2.0	6.0	120	5.0
Postwar (Est.)	300	2.0	6.0	150	5.0

Note: Postwar figures are approximations, based on varying estimates of postwar national income.

The most ideal situation would be if the debt were widely distributed among millions of small bondholders. Then, even if tax revenue were largely drawn from individuals including the lower income groups, the effect would be not only fairly neutral as to the balance between taxes paid and bond interest received, but chances are that it would stimulate employment and production.

Unfortunately, as remarked before, there is considerable unbalance of debt ownership, as evident from the appended table. As of April 1945, latest available figures, commercial banks hold fully one-third of the outstanding Federal debt and the percentage today is probably even higher. Individuals, including partnerships, hold only 24%, and probably less than 10% is held by persons earning less than $5,000 although these persons receive three-fourths of national income. Corporations hold some 11% and Federal Reserve Banks about 8%.

On basis of a necessarily rough estimate of interest accruing to these various classes of debt owners, commercial banks received almost as much interest as individuals, and by now perhaps more. Roughly, out of $6 billion a year in postwar interest, individuals may get about one-third, commercial banks one-fourth, corporations about 10%, insurance companies and savings institutions 15%. True, taxes, depending on the postwar fiscal structure, will recapture some of these interest payments,

perhaps as much as 20% in the aggregate, or one billion. However, it is estimated that almost 80% of individuals' bond holdings are in the hands of people in the upper income brackets. Thus the bulk of postwar debt interest-amounting to perhaps $4 billion net after taxes and that part of interest going to Federal agencies and thus not entering the income stream—will go to banks, insurance companies and individuals with a high tendency to save. The interest payments, in other words, will not find ready reflection in terms of added production and employment based on stimulation of spending power. Rather, the bulk of interest payments will go into savings and investments and, it is feared, may once more lead to "over-saving" and investment excesses.

Borrowing during the war period has been carried on with a constant eye to the transitional and postwar effects of the many types of securities offered and the classes of investors appealed to. Long-term marketable bonds have been sold principally to insurance companies and savings banks. Commercial banks have been offered more liquid marketable obligations maturing in ten years or less. One-year certificates of three-year Treasury savings notes have been especially attractive for temporary investment of cash accumulations of corporations. Principal emphasis of course has been on sale of E-bonds to individuals but in spite of this, the Government has not been able to tap individual savings in the desired degree. This is one reason why bank holdings reached such large proportions.

Distribution of Debt and Interest Payments
($ billions)

	Amount of Debt Held	Amount of Debt % of Total	Approx. Interest Payments*	Est. Avge. Int. Rate*
Individuals	$53.8	24%	$1.45	2.7%
Insurance Cos. and Savings Banks	29.2	12%	0.67	2.3%
Commercial Banks	77.5	33%	1.32	1.7%
Corporations	25.8	11%	0.36	1.4%
Fed. Res. Banks	20.5	8%	0.14	0.7%
Other Fed. Agencies	23.2	10%	0.58	2.5%
State & Local Govts.	4.3	2%	0.10	2.3%
TOTAL (as of April 1945)	$234.3	100%	$4.97	1.9% (Avge)

Tabulation based on U. S. Treasury figures.
*These items are necessarily rough estimates; sum of interest pay-

The possibility of serious economic consequences resulting from the size of the Federal debt relates chiefly to the large volume of Government obligations in the hands of the banks; in some instances such obligations represent the great bulk of earning assets and in virtually all instances the percentage proportion is very high, usually 50% or more. It raises two important questions: (1) What will happen when the banks begin to sell their governments?, and (2) to what extent will the banking structure absorb readily further increases in the national debt over the next few years should such increases become necessary? One might add a third question: What will happen if the Government bond market should some day decline?

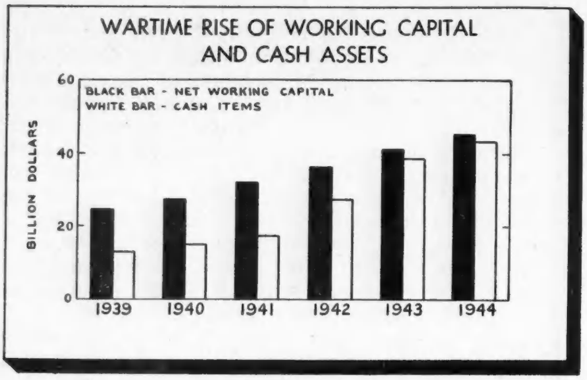
These questions per se make it immediately clear that existing large bank holdings of Government obligations have created problems of banking operations on the one hand and of money management on the other which can hardly be compromised; sooner or later they must be met resolutely and with clear-cut aims. Meanwhile the fact remains that some 45% of the outstanding debt has found lodgment in the banking system, with all the inflationary implications inherent in such a situation.

That the Federal debt affects our national economy in a great many ways is abundantly evident from the foregoing. Every aspect of this necessarily complex problem leads unmistakably to two conclusions: One is the urgency of returning as speedily as possible to a balanced budget to escape major difficulties and far more pronounced inflation of our credit system and our economy. The second is that smooth transition to a peacetime economy will be greatly aided by far greater distribution of the public debt among individuals; in other words a gradual and progressive transfer of government debt ownership from banks to private hands, for longterm investment. The all-important question is: Will this be feasible without raising interest rates, and thereby raising the debt burden?

Expansion of the national debt has been a matter of necessity arising from war; the course this expansion has taken has been determined by official policy, in part no doubt influenced by political expediency. Bank credit has been used in major degree; Federal obligations have found a ready market and interest rates have declined to very low levels. Thus far, due to the policy of concentrating a large proportion of the debt in securities of short maturity, there has existed a degree of flexibility in holdings of commercial banks that would seem to belie certain pessimistic apprehensions on that score. The Government appears determined to continue this policy in the peace era, that is adherence to low interest rates and maintaining a large portion of the debt in short-term obligations. Still one is forcibly reminded to ponder what might happen under changed conditions when business is active and there is a strong revival of the lending activities of the banks.

In quarters responsible for fiscal policy it is correctly adduced that the existing debt structure should contribute importantly to the liquidity of the whole economy especially if efforts towards further transfer of debt ownership to individual investors prove successful. Similarly, the funding of a major portion of the short term debt into longer term securities, as advocated by many, would certainly serve to increase the interest burden, at the same time shifting the risk of future changes in interest rates (and corresponding movements, in the opposite direction, of bond prices) from the Government to the private investor. Still it remains to be seen whether broader dispersal of debt ownership will be possible at existing low rates. The logic of the situation suggests that eventually, a major decision will have to be made.

The Government's insistence that more of the debt be placed in the hands of individuals, especially those in the smaller income groups, can be readily understood. It is an effort which of necessity must continue after the war and certainly during the transitional phase when (*Please turn to page* 624)



Survey of CORPORATE FINANCIAL RESOURCES

BY WARD GATES

THE progressive strengthening of corporate finances during the war years has frequently been a subject of study and comment in this publication. On the whole, the picture has been a gratifying one. The aggregate showing, and in the majority of cases the individual showing, revealed not only steady gain in financial stature but emphasized industry's ability to tackle reconversion adjustments and postwar expansion without undue resort to outside financial aid.

Examination of latest corporate balance sheets has confirmed continuation of this trend though the rate of gain lately has tended to contract. Nevertheless, as industry faces total reconversion, it finds itself in a position of financial strength and liquidity seldom equalled before.

Corporate net working capital at the end of last year, according to SEC data, reached a new high of an estimated $45.5 billion, a gain of $13.4 billion since the end of 1941. Cash items alone amounted to $43.9 billion, an increase of fully $26.1 billion since 1941 and indicative of the strong trend toward corporate liquidity that has characterized industry's financial experience in recent years. Actually, the position is even stronger than indicated by these figures. Corporations have accumulated postwar credits in refundable taxes amounting to over $2 billion and other sources of substantial refunds are the provisions of the tax laws for carry-back of losses and unused excess profits credits, for accelerated amortization of emergency facilities, and for recomputation of base-period income for excess profits termination.

Industry is well heeled to meet whatever demands for funds may be exacted by the exigencies of industrial transition and expansion. There are the usual exceptions which confirm the rule.

The situation has been highlighted by a recent survey of the Department of Commerce indicating that American manufacturers are planning outlays of more than $9 billion for fixed and working capital purposes within the next twelve months. Of the total amount, some $4.5 billion will be spent for plant equipment and alterations, about $2.8 billion to restock inventories and about $1.9 billion to increase receivables. That they do not lack the means to carry out such an ambitious program is revealed by the fact that the industries surveyed intend to finance from their own resources fully three-fourths of these expenditures. What's more, cash for this internal financing will be derived largely from current operations, thus there will be relatively little drain on corporate saving accumulated during the war.

Of the total of $9 billion, about $6.8 billion will be financed by the companies themselves. Or the remaining $2.4 billion, about two-thirds of $1.55 billion will come from bank loans and only $590 million will be raised by issuing new securities. The residue of some $285 million will be obtained in various other ways.

In view of the strong current reserve position of our banks, the amount thus actually needed is rather small and hardly points to any really strong revival of bank borrowing or, for that matter, of corporate security flotations for new money purposes. Also, the survey gives little support to the contention that new financing agencies are required to finance postwar needs of fixed or working capital.

Manufacturers' Planned Outlays and External Sources of Funds, by Industry Groups

(Millions of Dollars)

NOTE: The break-down by industry group is necessarily tentative and approximate. It does present, however, a picture of the general magnitudes.

Industry Group	Total Outlays	External Funds: Total	Bank Loans	Security Issues	Other
Food and kindred products (including beverages), and tobacco	965	295	180	85	30
Textile-mill products; apparel and other finished products; leather and products	1,565	620	390	160	70
Lumber and timber basic products; furniture and finished lumber products	525	95	75	10	10
Paper and allied products; printing, publishing, and allied industries	690	280	170	95	15
Chemicals and allied products; products of petroleum and coal; rubber products	1,085	160	40	50	70
Stone, clay, and glass products	280	80	50	25	5
Iron and steel and nonferrous metals and their products	1,040	350	260	60	30
Machinery, including electrical	1,550	375	275	70	30
Transportation equipment, including autos	1,220	65	50	......	15
Miscellaneous industries	305	105	60	35	10
Total	9,225	2,425	1,550	590	285

Source: U. S. Department of Commerce.

Corporate resources appear more than adequate, on the whole, to take care of any prospective requirements. Apart from industry's strong liquid asset position, war-active corporations can expect additional sizable sums from liquidation of war inventories and contract terminations; this is one reason why so large a proportion of future expenditures can be derived from current operations.

Manufacturers will draw on several other sources for company funds. The more important ones are current profits and depreciation allowances, apart from accumulated cash assets. Depreciation allowances alone aggregate about $2.5 billion a year. Corporate profits to date have averaged about $3.8 billion annually during the past two years. Hence it seems entirely possible that manufacturers can raise well over $6 billion in the year ahead to cover planned expenditures without weakening their present strong financial position.

It must be borne in mind, however, that this optimistic over-all picture is not entirely typical; there is considerable variation among industry groups just as financial strength varies in degree among individual companies. Thus smaller concerns, with annual sales up to $10 million, look to the banks for the bulk of the funds that must be obtained from the outside. Also financial strength is less clearly defined, as the appended table shows, in

COMPARATIVE BALANCE SHEET DATA
GENERAL MOTORS
($ millions)

	1941	1945	Change
ASSETS			
Cash	196.231	164.212	—32.019
Marketable securities	19.997	......	—19.997
Receivables, net	175.981	482.367	+306.386
Inventories, net	340.324	498.789	+158.465
U. S. Government securities	265.084	427.676	+162.592
TOTAL CURRENT ASSETS	997.617	1573.044	+575.427
Plant and equipment	851.707	958.518	+106.811
Less depreciation	441.832	663.929	+222.097
Net property	409.875	294.589	—115.286
Other assets	339.758	276.554	—63.204
TOTAL ASSETS	1747.250	2144.187	+396.937
LIABILITIES			
Notes payable	17.981	......	—17.981
Accounts payable and accruals	189.120	404.209	+215.089
Reserve for taxes	290.492	238.365	—52.127
Other current liabilities	......	......	......
TOTAL CURRENT LIABILITIES	497.593	642.574	+144.981
Deferred liabilities	38.707	61.652	+22.945
Minority interest	1.888	1.973	+.085
Long term debt	......	......	......
Reserves	81.560	114.732	+33.172
Capital	622.536	624.608	+2.072
Surplus	504.966	698.648	+193.682
TOTAL LIABILITIES	1747.250	2144.187	+396.937
WORKING CAPITAL	500.024	930.470	+430.446
Current Ratio	2.0	2.4	+.4

COMPARATIVE BALANCE SHEET DATA
U. S. RUBBER
($ millions)

	1941	1945	Change
ASSETS			
Cash	29.136	26.975	—2.161
Marketable securities	.650	......	—.650
Receivables, net	39.184	55.805	+16.621
Inventories, net	76.666	85.965	+9.299
U. S. Treasury tax notes	9.179	5.000	—4.179
TOTAL CURRENT ASSETS	154.815	173.745	+18.930
Plant and equipment	178.248	195.605	+17.357
Less depreciation	111.295	127.003	+15.708
Net property	66.953	68.602	+1.649
Other assets	2.936	20.718	+17.782
TOTAL ASSETS	224.704	263.065	+38.361
LIABILITIES			
Notes payable	......	3.000	+3.000
Accounts payable and accruals	42.623	36.500	—6.123
Reserve for taxes	23.842	46.369	+22.527
Other current liabilities	......	......	......
TOTAL CURRENT LIABILITIES	66.465	85.869	+19.404
Government contr. adv.	......	9.773	+9.773
Minority interest	.418	.439	+.021
Long term debt	37.947	25.500	—12.447
Reserves	7.726	9.307	+1.581
Capital	82.500	82.700	+.200
Surplus	29.648	49.477	+19.829
TOTAL LIABILITIES	224.704	263.065	+38.361
WORKING CAPITAL	88.350	87.876	—.474
Current Ratio	2.3	2.0	—.3

COMPARATIVE BALANCE SHEET DATA
DUPONT
($ millions)

	1941	1945	Change
ASSETS			
Cash	71.058	172.084	+101.026
Marketable securities	24.968	......	—24.968
Receivables, net	47.219	55.207	+7.988
Inventories, net	75.559	83.738	+8.179
U. S. Treasury tax notes	100.200	......	—100.200
TOTAL CURRENT ASSETS	319.004	311.029	—7.975
Plant and equipment	455.835	494.381	+38.546
Less depreciation	157.219	275.606	+118.387
Net property	298.616	218.775	—79.841
Other assets	294.559	407.187	+112.628
TOTAL ASSETS	912.179	936.991	+24.812
LIABILITIES			
Notes payable	......	......	......
Accounts payable and accruals	51.586	56.846	+5.260
Reserve for taxes	117.593	6.895*	—110.698
Other current liabilities	......	......	......
TOTAL CURRENT LIABILITIES	169.179	63.741	—105.438
Deferred liabilities	8.288	32.538	+24.250
Short term debt	......	......	......
Long term debt	......	......	......
Reserves	58.141	71.977	+13.836
Capital	391.335	391.260	—.075
Surplus	285.236	377.475	+92.239
TOTAL LIABILITIES	912.179	936.991	+24.812
WORKING CAPITAL	149.825	247.288	+97.463
Current Ratio	1.9	4.8	+2.9

*—After deducting $150 million U. S. treasury tax notes.

COMPARATIVE BALANCE SHEET DATA
CHRYSLER
($ millions)

	1941	1945	Change
ASSETS			
Cash	60.469	122.903	+62.434
Marketable securities	4.302	......	—4.302
Receivables, net	38.894	195.103	+156.209
Inventories, net	77.986	69.145	—8.841
U. S. tax notes	5.000	26.181	+21.181
TOTAL CURRENT ASSETS	186.651	413.332	+226.681
Plant and equipment	103.959	97.163	—6.796
Less depreciation	45.665	49.945	+4.280
Net property	58.294	47.218	—11.076
Other assets	10.357	13.185	+2.828
TOTAL ASSETS	255.302	473.735	+218.433
LIABILITIES			
Notes payable	......	......	......
Accounts payable and accruals	52.595	153.558	+100.963
Reserve for taxes	6.820*	59.955	+53.135
Other current liabilities	......	......	......
TOTAL CURRENT LIABILITIES	59.415	213.513	+154.098
Deferred liabilities	......	......	......
Short term debt	......	......	......
Long term debt	......	......	......
Reserves	18.496	55.665	+37.169
Capital	21.755	21.755	
Surplus	155.636	182.802	+27.166
TOTAL LIABILITIES	255.302	473.735	+218.433
WORKING CAPITAL	127.236	199.819	+72.583
Current Ratio	3.1	1.9	—1.2

*—After deducting $25 million U. S. Treasury tax notes.

the case of the textile, apparel and leather group which incidentally shows the largest total planned outlays. On the other hand, the transportation equipment industry and the chemical, petroleum and rubber group, both including many of our largest corporations, expect to rely very little on external sources to finance their planned expenditures.

It goes to show that in the final analysis, financial resources are not spread evenly even though they have appreciably gained during the war in virtually every industry group. Significantly, smaller-sized companies have indicated relatively more ambitious plans for outlays than the larger ones. Partly as a result of this, they expect to obtain a more substantial volume of necessary funds from external sources.

As a whole, the aforementioned picture applies equally to utilities and railroads. The electric and gas utilities, according to the Department of Commerce survey, expect to spend over $700 million for structures, improvements and equipment during the current fiscal year. This is about two-thirds of the peak years 1929 and 1930 but more than 20% above the 1937-40 average. The excellent financial status of the private utilities is indicated by the fact that over 60% of these planned expenditures will come from cash assets accumulated prior to the period. At the end of 1944, for example, the utilities had accumulated almost $1.25 billion in cash assets, nearly double the holdings at the end of 1940.

American railroads plan spending some $785 million in the next fiscal year which is 35% above 1944, three times the rate of 1939 and double the 1937-40 average. About 60% of the outlays will go into new equipment. No less than 65% of total outlays will be financed with cash from current operations, thus involving relatively little drain on accumulated resources. During the past three years, retained earnings of railroads have approximated some $500 million annually and depreciation reserves contributed another $350 million annually.

About 25% of the aforementioned railroad expenditures will probably be financed with long-term indebtedness, about double the 1944 amount of new money raised through sale of security issues. Only a small part is to come from short-term indebtedness including bank loans.

There are of course certain regional differences. The western roads, for instance, expect to finance over 70% of intended outlays with cash from current operations, the southern roads about 60% and the eastern roads little more than 50%. The latter will raise the remaining 40% by means of new long-term securities but in the case of the former two, this type of indebtedness will account for only 20% of anticipated expenditures.

In its entirety, the survey confirms the fact that industries as a whole are in an unusually strong financial position, for despite high planned outlays, a comparatively small amount is expected to come from outside sources and but a limited percentage from accumulated liquid assets. If plans for financing through bank loans materialize — relatively small as they appear —, they will mark the first important increase in this direction since 1941. The anticipated flotation of new money securities points to a volume almost equal to 1941, and about 10% below the immediate prewar peak of 1937; however, it would still remain far below the heavy financing activity of the Twenties.

Throughout the war years, evidence of growing corporate financial strength has been abundant and cumulative. For example, during the five year period from the end of 1939 to the end of 1944, the increase in corporate net working capital amounted to $21 billion, a rise of 85%. Of this increase, $13 billion was accumulated in the three years since our entry into the war. In addition, during these five years and almost entirely since 1941, corporations paid off $1 billion of long-term debt. Also, net property account at the end of last year was approximately $2.5 billion below the 1939 figure and roughly $5.5 billion lower than in 1941.

The most striking changes in industry's current position from 1939 to 1944 are represented by the increase in cash holdings from $10.9 billion to $23.1 billion, and an increase (Please turn to page 619)

Comparative Data Showing Wartime Asset Gains of Selected Companies

	In Millions of Dollars							
	Total Assets		Net Working Capital		Cash Items		Book Value Per Share	
	1941	1945	1941	1945	1941	1945	1941	1945
American Viscose	$128.659	$153.366	$48.288	$42.689	$40.072	$50.090	$53.60	$57.60
Atlas Powder	33.941	38.706	9.501	12.339	7.699	10.320	57.38	56.15
Borg Warner	72.605	128.033	29.539	43.447	17.101	56.581	19.16	26.65
Bucyrus Erie	29.749	41.223	12.773	15.373	2.091	14.062	16.69	14.38
Clark Equipment	19.108	25.101	5.804	9.377	5.040	9.194	34.80	54.94
Container Corporation	26.804	30.410	5.899	7.076	1.250	3.736	27.01	33.08
Devoe & Raynolds	12.891	16.134	6.952	7.707	1.906	3.902	47.72	51.89
Dow Chemical	80.550	146.146	4.050	40.598	4.110	40.390	39.80	58.91
Houdaille Hershey	23.199	42.838	6.523	9.541	4.910	23.729	6.79	9.63
Master Electric	5.422	10.602	1.754	4.671	.522	5.358	12.58	15.43
Monsanto Chemical	64.248	112.671	20.021	29.861	11.097	13.495	28.88	38.30
National Cash Register	63.090	54.150	31.695	24.217	3.933	18.076	22.60	24.26
National Lead	116.426	136.790	33.490	45.355	11.437	32.286	19.49	25.82
Procter & Gamble	162.742	173.938	71.987	92.521	33.757	39.085	19.96	24.34
Rustless Iron & Steel	15.472	17.431	3.739	7.710	3.005	5.075	5.90	11.12
Standard Oil of Ohio	97.891	134.920	17.566	22.856	14.527	14.602	26.45 (a)	29.22
Studebaker	49.938	72.374	16.882	26.175	16.337	25.877	11.83	17.15
United States Gypsum	76.709	81.431	26.272	38.882	19.672	33.880	47.35	54.54
Warner Bros.	169.575	194.295	13.181	35.002	7.431	20.096	22.24	28.66
White Motors	36.356	45.624	17.151	22.340	2.019	13.165	35.88	49.17

(a)—Adjusted to reflect 2-for-1 split in 1945.

Acme

Surplus Property for sale in a Treasury Department Warehouse

$100 Billion Worth of Surplus Property

BY THOMAS L. GODEY

FOR over a year now, Surplus Property Disposal has been grinding along slowly and haltingly, hampered by a very imperfect surplus property disposal law. As it did, the problem grew in inverse proportion; it loomed constantly larger as first VE-Day and then VJ-Day approached and became a reality.

The war's end now finds the Government with some $100 billion worth of inventories of every conceivable nature, from jeeps to ships and mammoth ordnance plants, and the whole surplus disposal set-up thoroughly tangled. Just to get an idea of the magnitude of the job, consider that this over-all figure exceeds that of the nation's entire national income of any prewar year, and is some twenty times the amount of surplus property that was left at the end of the first world war.

VJ-Day is not by any means simplifying the matter, for greatest opportunity for surplus disposal was before that day when many of the surpluses might have been used to offset the scarcity of consumer goods. Now, with mounting transitional unemployment in prospect, many things will be harder to dispose of. The fear that surpluses will compete with reconversion goods may act as a brake. To minimize such competition, it may well be that the Surplus Property Board will intensify its efforts to channel surplus property, particularly trade marked goods, back to original manufacturers even if such procedure requires knock-down prices. The monetary loss of course will be correspondingly larger.

Aware that liquidation of the biggest pile of "left-overs" in the country's history may become the greatest postwar problem, President Truman recently took steps to revitalize the disposal machinery by recommending that the present three-man Surplus Property Board be replaced by a single Administrator. Congress is being pressured to rewrite the Surplus Property Act or at least clarify or rescind the vexing system of priorities—strongly favoring small business and other special groups—that was written into it. Most important of all, Congress is urged to clarify the Act so as to free the various disposal agencies from any responsibility—in the popular mind — of the large book losses that inevitably will have to be sustained if the properties are to be disposed of at all.

Two fundamental considerations seem to influence every step that is taken in the disposal effort: One is public reaction to the huge losses we are likely to have to take, and the second, the economic situation during the postwar era and the effect of the expected torrent of surplus goods.

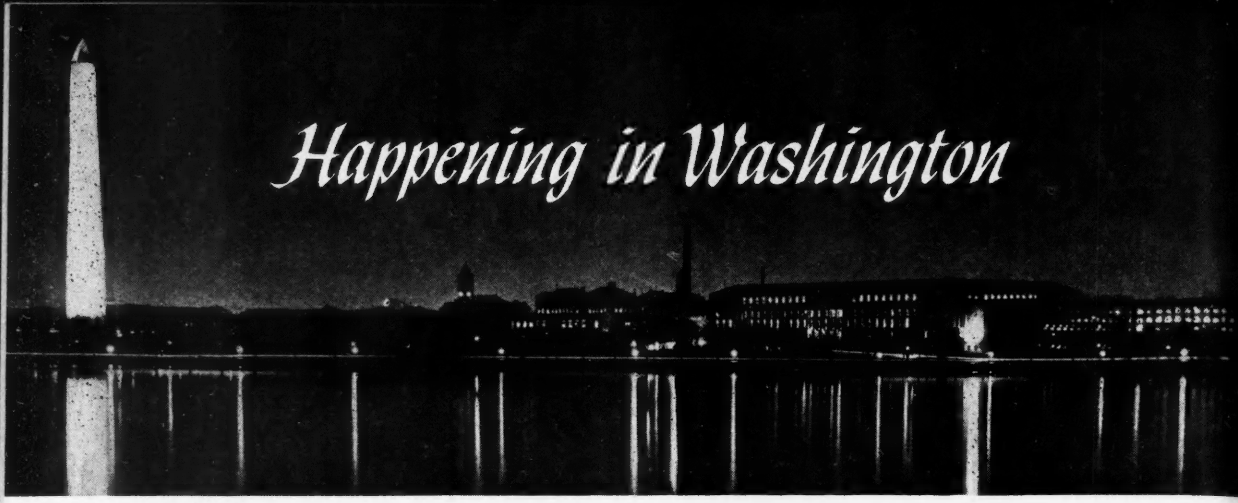
Of an estimated $100 billion worth, probably over half will be in armament, aircraft and battle gear. Such materiel, having served its purpose, is good only for scrap. That's particularly true of aircraft; some estimate that about 90% of the military planes now on hand will be of no further use.

There will be about $24 billion worth of airfields, housing and other non-industrial facilities; over $16 billion in plant and equipment; perhaps over $10 billion in ships.

So far, sales amounted to a monthly trickle of about $50 million, with the Government reportedly getting about thirty-five cents on the dollar. Total sales, in terms of value received, are still far from the half billion dollar mark, the surface of surplus disposal thus is only barely scratched. Obviously, events now force a faster tempo. Up till now, policy apparently was to make haste slowly; from here on, there is no time to be lost.

Perhaps one of the most difficult and potentially far-reaching question is that of plant disposal, and the biggest plants are likely to be the biggest headaches. Many of them represent such huge investments that few combinations of private capital will be large enough to take them over. Moreover, plant disposal has become some sort of a battleground between the budding industrial West and South and the entrenched industrial East. It has also become an instrument of official policy as that policy works toward greater decentralization of industry and lessened industrial concentration. The law now requires that sales of (Please turn to page 618)

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

GOVERNMENT is going out of the housing operation business and this may be the first indicator that public competition with private enterprise which expanded in the pre-war decade to cover numerous industries has reached its ending. National Housing Agency has set a two-year limit on removal of temporary dwellings constructed to house war workers, and for auction sale of government-subsidized slum-clearance buildings. On the threshold of a housing boom to catch up with the demands of four years of idleness in that field, this becomes significant.

> *Washington Sees:*
>
> Unless there is an unprecedented measure of voluntary compliance, the federal wartime control agencies will experience bad weather through the reconversion period.
>
> President Truman has directed these units, by executive order, to continue wartime functions but has failed to provide the machinery for those which automatically lost their authority when the order to cease firing went out.
>
> Wage increases provide one example: higher pay is now permitted, with the Little Steel and $5,000 executive ceiling abolished; yet the War Labor Board was asked to insure that no wage increase be made effective if the result would be to increase commodity prices.
>
> The Executive Order also sought to cover labor disputes by asking the "proper officials" to take jurisdiction over situations which in peacetime "interrupt work contributing to the effective prosecution of the war."
>
> There is little in those and companion passages for the guidance of Washington authorities. Any attempt to exercise powers thus obscured is fraught with troublesome possibilities.
>
> What the President's Executive Order amounted to is an appeal to the common sense and discretion of industry and labor. That boils down to voluntary compliance, throws the burden upon labor-management cooperation, sets up a test that may have legislative repercussions.

INDIFFERENCE was the reaction of official Washington to the announcement by United Automobile Workers that the "no strike" pledge no longer holds. Agencies here are too concerned with problems of reconversion and involuntary unemployment to fret over a policy which, many say, never was fully abandoned in deference to war needs. However, President Truman will take a cue from Senator Vanderberg's suggestion for a management-labor peace parley, will call such a meeting very soon. Binding conclusions are not in the cards but the discussions will provide a record of the attitudes and intentions of both groups.

CLEANUP of the State Department is going forward apace but it is more than a change of personalities, it is a departure from fundamental policy that has been followed since the beginning of the Republic; putting international affairs on a practical business basis and hacking away outworn diplomatic formalities. Several top posts already have changed hands and the exodus is only beginning. Seasoned businessmen will be asked to come in on the same basis as they were drafted into the War Production Board in its earlier days.

VICTORY BOND DRIVE receipts which are expected to reach 14 billion dollars, unlike those which preceded, will not be used for production but to take in the assured slack on tax receipts which will come in the wake of reconversion, profit cuts and payroll lessening. That fact inferentially places the national deficit for this year at about 20 billion dollars. The Treasury began the fiscal year with a 25 billion cash balance from which it was intended — and still is — to withdraw not more than 10 billions during the year to reduce the spread between tax income and outgo. A 20 billion deficit therefore seems likely to be the minimum to be expected.

AS WE GO TO PRESS

War Production Board already is moving to protect the smaller manufacturers in the scramble for materials which are becoming available as V-J melts away government controls. The full force of WPB investigators is in the field to insure that inventory regulations are strictly observed, to see that all members of industry get off to an even start in the manufacture of goods for civilian consumption.

Automobile industry, already in the preliminaries of reconversion, will be one of the first to take advantage of the speed-up signals. Under original plan, 691,018 cars were to be made by 10 manufacturers by March 31, 1946, about 200,000 of them in 1945. Prediction now is that 500,000 new automobiles will be turned out this year.

Release of gasoline from rationing was first of several supporting steps that must be taken to step up automobile production. Tire rationing is not expected to last much longer, now that military demands -- except for maintenance -- are dwindling.

More generous supplies of fuel for automobiles will relieve the train, bus, and plane overload but the Office of Defense Transportation expects a very tight situation to confront the common carriers for at least two more months.

Unemployment: some 5 million workers in munitions, shipbuilding, aircraft and ordnance plants are expected to lose their jobs within 60 days. Private industry, with some reshuffling of workers, will absorb most of them, Washington believes.

Samplings in the next 30 days will supply an answer to the question asked throughout the war: how many women will return to the kitchen when wartime jobs are lost; how many will try to retain their places in the labor market?

Related questions for which answers will be sought in the same manner, over the same period of time (for unless there are dependable statistics the subjects of relief, federal aid, housing, social security act changes and numerous others cannot be scientifically answered), are whether youths will leave factories to return to school, will men who came out of retirement to do war jobs return to rest, will workers drawn from farms by salary attractions go back.

Most pleased man in Washington when gasoline rationing was revoked was Chester Bowles, OPA Administrator. He received the blame for the annoyances, actually had nothing to say about how much gas one used to run his car or how much fuel oil one burned to heat his home. The determinations were made by Harold L. Ickes in his capacity as Petroleum Administrator for War.

War's cost cannot be fully determined for many months but the statistics at this juncture add up to this: cash outlay, 300 billion dollars; more than 1 million casualties, 25 per cent of them killed. Commitments which cannot or will not be cancelled will require continued heavy taxation although congress is showing a disposition to move in with reductions much more rapidly than the Treasury wishes.

Universal military training for boys in the 18-21 years age bracket, a legislative foregone conclusion only a month ago, is losing supporters and may not become law. Certainly it will not be enacted in the form which was before congress.

The sharp focus into which warfare brought the subject has been lost in the ensuing peace and congress members are saying the public wants a respite from all reminders of war. President Truman appears like-minded. Armies of occupation are in the making but they probably will be on a volunteer footing.

Industry should watch with interest a little publicized aspect of the Potsdam conclusions on reparations. Most revolutionary angle is that Germany will be required to give up its assets in the former satellite nations and the former conquered territory.

That means the gigantic industrial combine known as the Herman Goering Werke, which sprawled over Central Europe and the Balkans, will pass into ownership of the Soviet Government creating laboratories for the test of public and private operation in the same fields of supply of labor and materials, and similar operating factors.

Similarly, German industries in Czechoslovakia, France, Belgium and Holland will pass into the hands of the Western Allies. One of those Allies, Great Britain, has just voted in a government pledged to a broad socialistic program of industry nationalization. France in all probability will do likewise in October. And the United States will be handed plants which this country won't want to operate in the face of so contrasting an industrial ideology.

Atomic energy development will be a government monopoly for many years -- and that's one monopoly to which no one is likely to raise strong objection. Newest and most permanent of Washington agencies will be the Federal Atomic Power Corporation. It will be financed by congressional appropriations, rigidly supervised by a politico-scientific commission.

Philippine economy and politics are reported by recent visitors to that area to be completely haywire. Mainlanders still believe the sugar and hemp industries can be put back on a paying basis. Philippine industrialists emphatically do not think so.

American dollars will be needed by the millions for the economic and social rehabilitation of the islands, but they naturally are showing some reluctance. Philippine businessmen, themselves, prefer to put their money into mining. Industrialists, skeptical of the future of sugar and hemp, want aid in large-scale industrialization.

Meanwhile, President Sergio Osmena faces defeat in the next national election; and independence which the inhabitants are growing less and less to want is due next July 4.

As if to make the confusion complete, several Washington agencies are battling to gain supervision of the Philippine Government when Gen. MacArthur withdraws his troops. The Foreign Economic Administration, The Department of the Interior, and The Department of Agriculture are contenders.

Paul V. McNutt, recently returned from the islands after an inspection trip wouldn't be averse to landing his former job as Governor-General. His administration of the War Manpower Commission wasn't outstanding for its apparent knowledge of the problems of industry and the industrialists don't want him around.

All-out readjustment faces the food industry but the time element is working in its favor because end of rationing, pricing and allocations for military needs will not come for some time. Speed of demobilization of military forces, termination of contracts with food industries, and extent of exports are factors to be weighed.

Outlook is for a crop closely approximating record. The Department of Agriculture will carry out its announced price support program but next year will see programs limited to a few basic commodities covered by legislation. Canned fruits and vegetables are not likely to be included.

... Nationalization of Bank of England

... Withdrawal of Lend Lease

... Dislocation of Netherlands Economy

... Denmark's Position

... Czechoslovak Trade Mission

WITH JOHN LYONS

THE nationalization of the Bank of England is far from being the key to the Labor's Party nationalization program which big-talking Professor Harold J. Laski, chairman of the Party's Executive Committee, would like the public to believe. Rather it is a politically expedient step which will be easy to carry out and which, as the London Economist puts it, "will do little harm and also little good." About the only difference will be that the stock will be held by the State instead of by some 17,000 private investors and that the Governor will be officially instead of unofficially answerable to the Parliament for the Bank's policies.

Actually the stockholders have had no voice in the management, except the nominal right to elect directors. No stockholder has more than one vote regardless of the number of shares held. There are four stockholder meetings a year, and the recommendations of the directors are invariably adopted. The Bank had 24 directors, elected in principle by the stockholders, but in practice appointed by the surviving directors subject to confirmation by shareholders, which has been, of course, automatic. The Governor, appointed by the directors every two years (Lord Norman was reappointed repeatedly), was usually the director with the longest service, preferably a financier but never, by unwritten rule, a director of one of the large joint stock banks. The dividend has been uniformly 12 per cent since 1922.

What really matters are the Bank's financial policies, and these have been for some time identified with Government (Treasury) policies. The Economist points out that ever since 1932, when the free convertibility of the pound sterling was suspended, "the Bank has been the technical instrument for carrying out Government policies." In 1936, Lord Norman openly professed the Bank's readiness to carry out official financial policies, and in 1939, Mr. Dalton (now the Chancellor of Exchequer in the Labor Government) declared that the Governor of the Bank of England was "to a much greater extent than was openly admitted or legally recognized the agent and the servant of the Treasury, rather than an independent financial dictator."

What will happen to "the Court of Directors of the Bank," as the management is called, when the nationalization policy is carried out, is now being debated in Great Britain. It will probably be replaced by some kind of a Board on which the trade unions and business interests will be represented. If the reorganized Bank has a competent management and if it keeps the confidence of the public, especially in respect to the measures combating inflation, then very little will in fact change.

Effects of Lend-Lease Withdrawal

Far more important than the nationalization of the Bank of England is the problem of what will happen to the British balance of payments now that lend-lease is to be withdrawn. If the reconversion and the recovery of export markets is slow, as may be the case with business undecided about the immediate future, Great Britain is likely to have international payments run against her to the extent of several billion dollars a year. Under such circumstances there cannot be any talk of unblocking the $16 billion debt owed chiefly to the sterling area and of lifting foreign exchange controls. That would mean that either the whole Bretton Woods project would have to be put on ice until Great Britain is ready to lift foreign exchange controls, or we will have to help.

British official and business circles have maintained for some time that it would be useless to convert sterling balances into a dollar debt which Great Britain could not hope to pay under the present circumstances. British reconstruction, according to them, could be helped only by a "grant in aid," an outright gift or a continuation of lend-lease which would permit Great Britain to build up dollar balances. According to the London Economist, it would take at least $6 billion to unblock sterling balances through the payment of 20 to 25 per cent in cash. In return, the owners of the balance would be expected to reduce their claims by about 20 to 25 per cent and the remainder would be funded into long-term obligations.

What the American public and Congress not yet fully realize is that it will cost us money if we insist that the Western European countries, impoverished by the war and faced by tremendous reconstruction and social prob- *(Please turn to page 623)*

MACY GOES WEST

Ewing Galloway

BY EDWIN A. BARNES

MACY, the world's largest department store, has gone West and thereby once more has made the newspaper headlines. It has also been going South, and is penetrating purposefully into the New York suburban area. Altogether, Macy appears well on its way towards becoming an outstanding nation-wide department store chain. The pattern of expansion in this direction is gradually unfolding, and expansion is constantly under consideration.

Latest move is a plan to build a $1,000,000 department store in White Plains, N. Y. and reports have it the company also plans entry into Hollywood, Cal. Prior to that, Macy had opened a branch in Parkchester, N. Y. C. and there are plans for another branch in Jamaica, L. I. However, what really spurred visions of a great nation-wide Macy chain was recent acquisition of the old-established San Francisco store of O'Connor, Moffat & Co. through an exchange of stock on basis of three Macy shares for four of O'Connor Moffat.

Other Units

Some time ago, the company's Davison Paxon unit in Atlanta, Georgia, acquired Saxon-Cullum of Augusta and Union Dry Goods Co. in Macon. The LaSalle & Koch unit in Toledo, Ohio, acquired A. Froney & Co. in Bowling Green, Ohio.

Also, Macy owns the large Newark, N. J. department store of L. Bamberger & Co. and operates radio station WOR and affiiliated stations of the nation-wide Mutual Broadcasting System. Income from the radio group amounts to about 10% of total consolidated income before taxes.

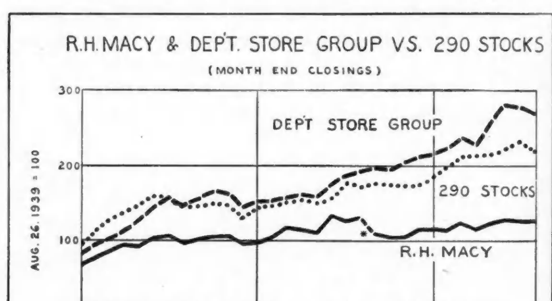
About a year ago, Affiliated Retailers Inc. was formed jointly with May Department Stores to develop and promote new products. The organization has since increased its sponsors to nine retail organizations. Additionally, Macy manufactures many of the private brands sold which are also distributed by Supremacy Products, Inc.

Then there is Macy's Bank operating under New York State banking laws with all deposits guaranteed by the parent company, an added convenience for Macy customers, with total assets of some $10 million.

Expansion, apparently, is by no means completed. Rather, the company is following a policy of opening new stores whenever and wherever "opportunity is right," and no state of the union is neglected. In pursuance of this policy, it is understood that all major operating units in the organization are exploring plans and possibilities for additional branch units in line with the pattern set by the Atlanta and Toledo stores. A financial backlog has been provided for Macy's expansion by the authorization of 500,000 shares of new preferred stock at a special meeting last year, of which approximately one-third was distributed as a stock dividend to common stockholders and the remaining two-thirds reserved for issuance as needed.

All Macy stores carry an unusually complete line of merchandise including wearing apparel, household furnishings and furniture, groceries and other foodstuffs and general items usually sold by complete department stores. The New York and Newark, N. J. stores are also important retailers of wines and liquors. General merchandising policy is based primarily on lines which move rapidly under the stimulus of attractive pricing.

Nationally advertised brands of merchandise are carried in all stores but the company's general policy is to promote its own private brands which are sold in competition with trademarked items on which manufacturers fix retail selling prices. And Macy's famous cash policy (we sell for 6% less) has been a storm center of New York retailing for years. This cash policy, however, has applied only to the parent store, others following the usual practice of accepting charge accounts. Only since 1939, began the New York store to offer its "Cash-Time" service to accommodate customers lacking ready



cash, a modified instalment sales plan designed to harmonize with the concern's basic selling policy.

Biggest of all, the New York store, occupying nearly the entire block bounded by Broadway and 7th Avenue and 34th and 35th streets has over 2,000,000 square feet of floor space. The original building was erected in 1902 while the two 19-story sections were constructed during 1922-31. Large warehouse and storage facilities are owned on Long Island.

The Strauss family has been prominently identified with Macy's and three members are on the Board. President Jack I. Strauss has been an officer or director since 1928. Beardslee Ruml, Treasurer and director, is a well-known central banker and tax expert, famous as the advocate of "pay-as-you-go" taxes. Other directors are Donald Kirk David, dean of the Harvard Business School, Ward Melville, President of the Melville Shoe Corporation and Robert Dowling, President of the City Investing Company.

Past Earnings Record

Macy has always prided itself of its progressive management and merchandising policies. An able economist, Q. Forrest Walker, has for many years investigated the price trends of various commodities. Testing laboratories are maintained to check the quality of textiles and other goods handled. Personnel training is well organized.

While Macy's past earnings record has been creditable, the company during the war years has not been able to fully maintain its relative position. This was largely due to the scarcity of durable goods which normally constitute a sizable proportion of the New York store's business. Also, its wartime buying policy has perhaps been rather on the conservative side, in contrast with that of some of the concern's principal competitors which maintained far heavier inventories in recent years. Macy instead has been piling up cash, thus is in a relatively stronger position to finance out of its own resources its postwar expansion program. Temporarily, such a policy may have had a restrictive influence on sales gain and profit margins but it also tends to curtail potential inventory losses and facilitates the restocking with postwar goods.

Macy's capitalization is conservative. Against total assets of about $100 million, there are outstanding $10,910,000 2½% bonds due to 1952 and $6.525,000 notes payable. Also 165,600 shares ($100 par) of $4.25 Cumulative Series A Preferred stock and 1,656,000 shares of no par common. Working capital at the end of January amounted to $43.86 million, an increase of $17.38 million since 1941. Indicative of the company's liquidity, cash assets come to about $27 million and the current ratio is 3.6 to one.

Comparative statistical data are found in the appended tables. Macy's earnings record, while creditable, in the past has been somewhat irregular but net for common has always been fairly substantial and dividend payments were well sustained. In 1929, $5.79 a share was earned after allowance for stock dividends; but in 1932 this dropped to $2.20 and in 1938 to $1.42. In general, earnings have averaged about $2.25 in recent years. But wartime taxes have been heavy. In the fiscal year ended July 29, 1944 the company paid $5,337,000 in excess profits taxes and $2,623,000 in income taxes. If Congress should decide to drop the excess profits tax, about half would be saved for stockholders, or about $1.60 a share for the 1944 fiscal year, which would have increased the earnings to over $4.00. Now that V-J day has passed, Congress (which reconvenes after Labor Day) is expected to take early action on tax readjustments, though these may not become effective until later.

Immediate Profit Outlook

Macy publishes interim figures only on a six months' basis. For the half year ending January 31, $1.85 a share was reported compared with $1.67 in 1944 and $1.56 in 1943. This half is, of course, more profitable than the other period, since it includes the heavy Christmas business. Earnings for the 1945 fiscal year which recently ended are estimated at about $2.75. The effect on public purchasing power of cutbacks in war business and declining payrolls may reduce earnings in the next six months slightly, although New York City will probably suffer much less than other large centers, since it did not share in proportion to population in the production of munitions.

There may be some inventory price adjustments to be made but Macy has set up a reserve for war and postwar contingencies which can be drawn upon to take care of such adjustments. This reserve, if applied in full to the inventories of July 29, 1944, would have permitted a general mark-down of over 16%. In addition, the earned surplus of $9,664,976 and capital surplus of $26,136,838 are available to absorb any readjustments but such will hardly be necessary.

Pertinent Statistical Data

R. H. MACY

	1939	1940	1941	1942	1943	1944
Sales ($ mill.)	130.433	135.323	153.522	158.099	166.759	169.897
Depreciation ($ mill.)	2.680	2.649	2.765	2.827	2.864	2.712
Balance for common ($ mill.)	3.906	4.269	2.781	3.052	3.546	4.118
Operating margin	3.63%	3.87%	4.13%	6.25%	6.76%	6.55%
Net profit margin	3.02%	3.15%	1.81%	1.93%	2.13%	2.42%
% earned on invested capital*	5.54%	6.13%	8.71%	12.17%	14.02%	14.17%
Earned on common, per share	2.36	2.57	1.68	1.84	2.14	2.49
Earned on common, % of market price	6.5%	7.1%	4.6%	5.1%	5.9%	6.9%
Dividend rate	2.00	2.00	2.00	1.67	2.00	2.00(a)
Dividend yield	5.5%	5.5%	5.5%	4.6%	5.5%	5.5%
Current asset value per share**	13.63	15.56	18.76	18.24	22.98	21.95
Book value per share	41.28	41.64	36.21	35.83	38.24	38.75
Net current asset value per share**	9.00	8.17	10.32	9.90	14.13	16.07
Cash asset value per share	4.53	3.63	5.52	7.39	17.38	13.48
Current ratio	4.7	4.7	3.4	3.8	4.0	5.6

*—Before provision for income taxes. (a)—Plus 1/10 share 4¼% Preferred "A".
**—After prior obligations.

Comparative Balance Sheet Items

R. H. MACY
($ millions)

	February 1, 1941	January 27, 1945	Change
ASSETS			
Cash	6.016	9.543	+3.527
Marketable securities	.014	....	—.014
Receivables, net	11.307	11.872	+.565
Inventories, net	17.418	21.846	+4.428
U. S. Government obligations	....	17.479	+17.479
TOTAL CURRENT ASSETS	34.755	60.740	+25.985
Plant and equipment	77.331	66.471	—10.860
Less depreciation	28.103	31.907	+3.804
Net property	49.228	34.564	—14.664
Other assets	10.045	4.971	—5.074
TOTAL ASSETS	94.028	100.275	+6.247
LIABILITIES			
Accounts payable and accruals	6.412	15.196	+8.784
Reserve for taxes	1.856	1.675*	—.181
TOTAL CURRENT LIABILITIES	8.268	16.871	+8.603
Minority interest	.129	....	—.129
Short term debt	....	....	....
Long term debt	8.924	17.435	+8.511
Reserves	.565	3.750	+3.185
Capital	57.946	41.400	—16.546
Surplus	18.196	20.819	+2.623
TOTAL LIABILITIES	94.028	100.275	+6.247
WORKING CAPITAL	26.487	43.869	+17.382
Current ratio	4.2	3.6	—.6

*—After deducting $10.4 million U. S. Treasury tax notes.

Macy's accounting policy appears ultra-conservative. Good Will was written down from $7,000,000 to $1 in 1942. Property, plant and equipment has been written down nearly half—considerably more than half if allowance be made for the substantial land values. Fixtures and equipment, for example, are carried at a book value of $10,426,280 but a reserve of $6,424,650 has been set up for depreciation. Thus, the earnings seem under-stated due to the generous allowance for depreciation accruals.

Macy's dividend policy has been generous, though perhaps not over-liberal when the strong cash position and high depreciation rate are taken into account. Dividends in recent years have averaged about 80-90% of earnings, a $2 rate having been maintained during 1939-44. During earlier years (1922, 1928-32 and 1944) stock dividends were also paid. In 1922 a 100% stock dividend was declared while during 1928-32, 5% in stock was paid annually in addition to the cash dividends inaugurated in 1927. Last year's payment consisted of 1 share of 4¼% preferred stock for each 10 shares of common held. Since this preferred stock is currently selling at around 106, the dividend was equivalent to $10.60 in current value. Possibly because of this payment, the quarterly rate on the common has been reduced from 50c to 40c this year, indicating a $1.60 rate. Those who have held the stock since June 8, 1944 are actually receiving $2.02 a share from their preferred and common stock holdings.

Macy common at the current price around 36 yields about 4.5%, which compares with 4.3% for Best & Co., 4.1% for Bloomingdale, 3.8% for Lane Bryant, 5.0% for Abraham & Straus, 5.3% for Oppenheim Collins, 3.6% for Arnold Constable, 5.3% for Allied Stores, 4.2% for Associated Dry Goods (or 5.3% if the new 35c quarterly rate is continued), 4.1% for Federated Dept. Stores, 3.9% for Gimbel Bros. (which is paying out only about one-third of earnings), 4.7% for May Department Stores, and 3.9% for Marshall Field (including the anticipated year-end extra). On a comparative basis Macy's yield is fairly attractive, considering the semi-investment caliber of the stock.

On a price-earnings ratio basis, Macy's might look less attractive than some of the other issues but in order to make a fair comparison it would be necessary to study carefully the depreciation charges, federal income and excess profits taxes, prewar records and other factors as they apply to all these companies.

While Macy is selling at about 13 times the estimated earnings for the fiscal year ended July 31, such a ratio seems very reasonable considering the conservative accounting policy, the strong cash position, the postwar opportunities from expansion.

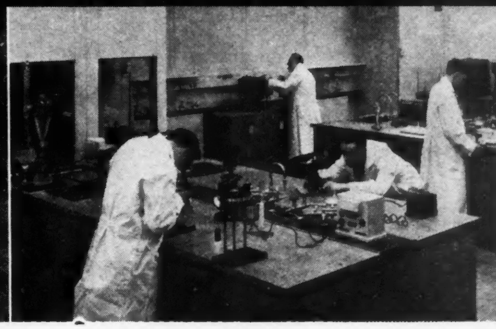
Macy's sales and profits held up better than those of the trade generally during the last depression because of its low price policy. However, the recovery rate was less impressive as competition intensified and price policies made it difficult to re-establish previous favorable margins with costs increasing. During the last two years, there has been an improvement in operating ratios and while the ratio may narrow during the current year, due to transitional reasons, the improvement may well be carried further in the postwar concurrent with expected strong revival of durable goods sales.

Also, the expansion program should materially broaden the company's earnings base. The new units acquired are for the most part located in areas where local purchasing power has been greatly boosted by the war and sales potentials hence should be promising. On the whole, longer term earnings should continue somewhat more stable than those of most other department stores since in the future as in the past, the appeal of low prices will not be lost.

Department stores as a whole have enjoyed additional sales expansion during the early months of 1945, for the most part with a further widening of profit margins. Comparisons for the second half may be somewhat less favorable, due to the initial lag in resumption of "hard goods" production and tightness in textile supplies. While both these factors may now quickly lose in relative importance as reconversion proceeds, it remains to be seen whether consumer buying in the face of rapidly mounting unemployment will become more cautious. The public's savings are large, thus except for psychological reasons, there need be no over-all restrictive effect—broadly speaking. In fact, market forecasters anticipate perhaps a record breaking Christmas trade. Macy's share should be at least proportionate if not better, the latter especially if durable goods become available in volume.

Percentage of Net Retail Sales and Net Profits Before Taxes Applicable to Macy Common Stock from Constituent Stores

	Percent of Total Sales	Percent of Oper. Profit
R. H. Macy & Co.	64%	50%
Bamberger (including WOR, etc.)	21	27
LaSalle & Koch	7	12
Davison-Paxon	8	11
	100%	100%



1945 MID-YEAR SPECIAL

Re-Appraisals of Earnings and Dividend Forecasts

PART IV

Prospect and Ratings for Motors and Accessories, Rail and Farm Equipments, and Miscellaneous Securities

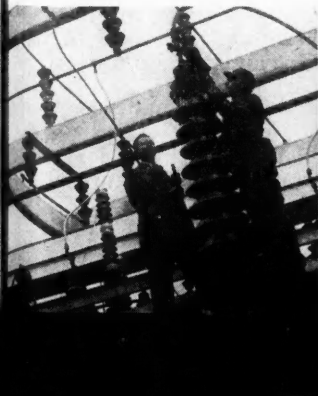
TO maintain a satisfactory dependable income from security investments and to protect—if not enhance—capital values in face of constantly changing conditions has always been a primary investment consideration. In these times of rapid and frequently profound shifts in outlook—with often incisive repercussions on investments—the need for watchfulness hardly requires emphasis. More than ever, investors must be alert, must keep posted on trends and developments to guard against risks and take advantage of opportunities. Methodical review and judicious stock-taking is indispensable for investment success.

Equity values are never static. Even under normal conditions, changing circumstances can affect the investment status of securities in an entire industry. This is doubly true today as we head into the decisive economic changes inevitable as the aftermath of the ending of the war in Europe—as we must begin to give serious thought to what lies ahead when global peace is restored. To keep informed and prepared against contingencies has always paid off. It will be no less so in the months ahead that mark our final passage through war to peace.

It is to serve this need for watchfulness that the Magazine of Wall Street presents its Security Re-Appraisals and Dividend Forecasts at six months intervals in addition to its regular coverage of economic and industrial developments of importance to investors. To make ths service of maximum usefulness to readers who collectively own shares in many hundreds of corporations, and especially to permit convenient comparative evaluations of holdings, we have endeavored to present as concisely as possible the most pertinent information and ratings on the maximum possible number of companies. Each tabulation is preceded by an amply extensive analysis of the position and prospects of the respective industry. When studied jointly and carefully, we believe that the material offered constitutes the most practical and useful "bird's-eye" view that can be devised.

The key to our ratings of investment quality and current earnings trend of the individual stocks—the last column in the tables, preceding comment—is as follows: A+, Top Quality; A, High Grade; B, Good; B—, Medium; C+, Fair; C, Marginal; while the accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example: A1 denotes a stock of High Grade investment quality with an Upward current earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X.



The Competitive Scramble As AUTOMOBILE PRODUCTION STARTS

BY RICHARD COLSTON

ALMOST as an echo of the atomic bomb comes front page news that from assembly lines have begun to roll the first civilian passenger cars produced since 1942. And right on top of this announcement the Japanese collapse completely upsets all time tables for the gradual reconversion of the automobile industry, a key point in our domestic economy. But while the impact of bulk cancellation of war contracts will raise enormous problems of readjustment and unemployment, all the more rapidly now will their solution be found, and after an expensive and inevitable lag, the many segments of the automotive industry will emerge into a period of prosperity bright with promise.

With an abrupt stoppage of war production, many problems hampering the present bare trickle of civilian car output vanish into thin air. While tin and rubber for a while yet are to remain subject to allocation by WPB, a flood of essential steel sheets and hundreds of other much needed materials has become immediately available. All manpower restrictions have been removed to permit the most rapid employment of as many workers as the industry can absorb, and within limits not too heavily cramped by price ceilings, wages can be upped a bit voluntarily if management so desires, thus to some extent alleviating the potential threat of work stoppages.

Reconversion May Be Speedy

Although time will be needed by many units of the industry to get fully into their peacetime stride, careful advance planning will accelerate the process and as a whole, the industry is likely to beat its astonishing speed record in converting to war production. Fullest governmental co-operation to achieve this goal is assured and small wonder, as about one out of every seven wage earners in the country directly or indirectly derives a living from this industry. The latter now confidently has raised its sights to double its previous production goal of 200,000 cars in 1945 and 2 million cars in 1946. If these new estimates prove reliable, production for the first full year might equal or exceed output of any prewar year since 1929, and in 1947 even that record should go by the board. The importance of such an eventuality to the nation's entire economy is apparent, for in normal times this industry consumes 80% of available rubber supplies, 51% of malleable iron, 18.1% of steel, 13.7% of copper and goodly percentages of many other basic raw materials.

In tackling the greatest reconversion problem of all industries, automotive management has already exhibited surprising speed and efficiency in the past few months, within the tight limits imposed. Both Pontiac and Chevrolet divisions of General Motors are reported having small scale assembly operations about ready for acceleration, and both Ford and Packard have produced their initial cars. So much has been written about the immensity of the industry's problem in readjusting equipment to normal requirements, that it seems unnecessary to elaborate further. Experience will vary widely in individual cases, some concerns having practically no problems of this kind, while for others months will be required to restore plants to full operating efficiency, and in this latter category are included most of the important car builders.

Expansion Plans

Confidence in the longer term outlook has led to plans for substantial postwar expansion of facilities by many units in the industry, General Motors alone being reported as figuring upon eventual outlays of nearly $500 million. Even in recent weeks WPB gave the industry permission to go ahead with construction activities involving $150 million, a mark which soon will be far outdistanced now that restrictions have been lifted. A substantial part of these huge outlays will be for the establishment of widely scattered assembly plants in line with the growing trend towards industrial decentralization set in motion by war experience. Such factors as freight rates, service needs and labor considerations are back of this trend, but of course output will be substantially increased when the new facilities are completed.

Due to the lag in getting under way with full-time operations, manufacturing costs of numerous concerns will temporarily rise skyward, although price ceilings must be rigidly observed. Huge overhead expenses will be all out of proportion to the small number of units possible to produce during early stages of reconversion and until assembly lines can function at top speed, high labor unit costs are bound to cut into operating margins. Initial output of many concerns, therefore, is certain to be sold at a definite loss until volume creeps up to restore satisfactory profit margins.

Fortunately, never in its long history was the industry so well prepared financially to withstand the shock of potential red ink, and by and large, from General Motors with working capital currently

POSITION OF LEADING AUTOMOBILE, TRUCK AND AUTO ACCESSORIES STOCKS

	In Dollars Per Common Share								
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Price Earnings Ratio	Invest-ment Rating	COMMENT
X Chrysler Corp.	$59.81	$9.68	$5.70	$4.30	$7.25	$3.00	22	B2	Second in prewar automobile field. Reconversion problem heavy but in strong position to hold its rank. Dividend substantially earned.
X General Motors	25.70	3.93	3.68	3.00	3.31	3.00	19	B2	Dominant factor in industry, with huge resources to carry on after difficult reconversion. Dealer position good. Dividend probably secure.
Graham Paige	1.24	def .51	.38	.30	Nil	Nil	27	C2	Aggressive management prepared to invade postwar markets. Strong financial backing but permanent progress a matter of speculation. Dividend unlikely.
Hudson Motors	22.61	def 1.23	1.07	.85	.06	.40	28	C2	Long established but earnings record mediocre. May benefit during coming boom. Small dividend may continue near term.
Hupp Motors	2.06	def .98	.31	.25	Nil	Nil	20	C2	Small factor in industry, past record unimpressive. Diversification plans may improve postwar prospects. Chances for dividend slim.
Mack Trucks	75.87	1.03	6.00	5.00	1.12	3.00	9	B2	Strongly entrenched as truck producer, with minor reconversion difficulties. Outlook postwar bright. Dividend seems secure.
X Nash-Kelvinator	11.73	def .43 (a)	.71	.56	.37	.50	27	C+3	Experienced and well financed car maker with volume prospects enhanced by diversification. Benefit from heavy postwar demand should stabilize dividend.
Packard Motors	3.84	.15	.27	.20	.17	.10	25	C+2	Fine reputation and dual production of cars and marine engines enhance postwar outlook. Dividend interruption unlikely.
Reo Motor	18.49	def 1.01 (b)	4.16	3.30	Nil	1.25	5	C+2	Position strengthened by wartime earnings but questionable ability to share importantly in postwar boom for long period. Dividend not too assured.
X Studebaker	16.84	.47	1.74	1.40	Nil	.50	17	C+2	Strongly financed and likely to prosper from car and truck sales after reconversion. Prewar record not exciting but has growth potentials. Dividend safe.
White Motor	47.60	def 1.55	3.38	2.70	Nil	1.25	11	B—3	Bright postwar prospects and strong treasury position favor further improvement over unstable prewar record. Dividend probably secure.
Willys-Overland	12.90	.55 (b)	1.64	3.00	Nil	Nil	16	C+2	Promotion of jeep sales to civilians and low priced car production may bolster postwar volume but capital needs preclude nearterm dividends.
American Bosch	14.40	def .73	2.03	1.50	Nil	1.00	9	C+3	Postwar demand for company's specialties likely to produce profitable volume although prewar record unimpressive. Fair prospects may warrant dividend maintenance.
Bendix Aviation	37.75	1.18	7.22	5.80	1.00	3.00	7	B2	A major supplier of accessories, well entrenched, ample capital. Outlook promising and tax cushion heavy. Dividend may be continued.
Bohn Aluminum	42.64	3.04	6.21	5.00	2.31	3.00	9	B2	Leading producer aluminum parts for cars, planning to exploit other fields. Prospects good, finances strong, dividend assured.
X Borg Warner	26.87	3.29	3.42	2.80	1.46	1.60	12	B2	Well diversified production and broad latent demand enhances prospects. Finances adequate and reconversion not hard. Dividend safe.
X Bower Roller Bearing	18.41	3.09	3.20	2.56	2.12	2.50	16	B2	Heavy demand for bearings postwar promises rapid adjustment to new conditions. Net earnings likely to continue favorable. No change in dividend.
X Briggs Mfg.	21.72	2.88	2.82	2.20	2.56	2.00	15	C+2	Largest independent maker automobile bodies and steel parts. Prospects bright after shift from aircraft work. Peak cash position strengthens dividend support.
Briggs & Stratton	13.35	3.22	3.23	2.60	3.12	2.25	13	B—3	Leading maker automobile locks and producer gasoline engines. Minor reconversion problems. Postwar operations should well sustain dividend.
Budd Mfg.	8.28	def .54	.65	.52	Nil	Nil	22	C3	Maker of automobile bodies and railway cars. Already 95% reconverted and expanding facilities. Prospects improved compared with pre-war.

(a)—1937-9 Avge. (b)—Predecessor Co.

— table continued on following page —

— continued from preceding page —

	In Dollars Per Common Share						Price Earnings Ratio	Investment Rating	COMMENT
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.			
Budd Wheel	$ 8.62	$ .38	$1.33	$1.07	$ .10	$ .75	12	C+2	Third largest maker wheels, brakes, hubs, with some diversification. Prospective large volume brightens outlook. Facilities increased. Dividend fairly safe.
Campbell, Wy. & Can.	23.72	1.56	2.15	1.60	.99	1.25	13	C+2	Chief producer iron-alloy castings. Trade position strong. Well financed and transition easy. Dividend likely to continue.
Clark Equipment	53.97	2.86	9.02	7.22	1.48	3.00	6	B—3	Important supplier housings and axles for trucks. Postwar opportunity bright. Expanded facilities and production twist drills enhance potentials. Dividend secure.
X Cleveland Graphite Br.	26.49	3.73	5.03	4.75	2.20	2.00	10	B—2	Strongly entrenched as maker engine bearings. Replacement business tends to stabilize earnings. Good finances strengthen dividend maintenance.
Collins & Aikman	29.80	4.47	3.24	3.00	2.50	1.00	14	B—1	Dominant maker automobile upholstery. Outlook bright after car boom gets going. Ample working capital. Dividend safe.
X Eaton Mfg.	33.98	2.74	5.31	5.00	2.09	3.00	10	B2	Prominent producer axles, springs, valves, etc. Well entrenched trade situation. Coming broad demand suggests well sustained earnings postwar. Dividend safe.
X Electric Auto Lite	23.55	3.30	4.09	3.50	2.30	2.00	14	B2	Leading independent maker electrical equipment for cars. Prospective heavy postwar demand should enhance earnings outlook. Dividend appears stable.
Electric Storage Battery	14.72	2.06	2.18	1.60	2.31	2.00	20	B2	Leading maker storage batteries. Long record steady earnings and dividends. Strong competition but trade position good. Dividend safe.
X Houdaille-Hershey B	9.73	1.48	1.39	1.00	1.28	1.00	15	C+2	Highly diversified maker automobile parts. Finances improved by sale new securities. Earnings fluctuate with customer prosperity. Dividend coverage narrow.
Kelsey-Hayes B	15.04	def .05	3.14	2.50	.38	1.50	8	C+3	Leading maker automobile wheels. Finances much improved during war. Postwar earnings should better prewar record. Dividend probably safe.
X Motor Products	22.69	1.56	2.87	1.75	2.06(a)	1.00	10	C+3	Strong manufacturer diversified automobile parts and frozen food equipment. Early postwar prospects favorable. Prewar earnings erratic. Dividend safe.
X Motor Wheel	19.51	1.79	2.33	2.50	1.18	1.20	12	C+2	Important maker wheels, hubs and drums, with additional non-automotive lines. Adequate finances, heavy normal demand brighten prospects. Dividend safe.
Raybestos Manhattan	34.47	2.19	2.67	2.15	1.48	2.12½	11	B3	Maker of brake linings, well entrenched. About half of diversified production supplies other industries. Amply financed and dividend safe.
Reynolds Spring	10.57	.57	1.12	1.00	.50(b)	1.00	16	C+2	Second largest manufacturer upholstery springs. Immediate outlook promising but prewar earnings volatile. Narrow coverage makes dividend uncertain.
Spicer Mfg.	54.44	2.86	6.55	8.00	1.88	3.00	10	B2	Long established maker various automobile parts with few problems reconversion. Large war earnings may shrink but dividend should continue.
Stewart Warner	19.47	.85	1.54	1.20	.56	1.00	13	C+2	Broadly diversified producer accessories for cars and non-automotive items. Earnings record variable but near term prospects good. Dividend safe.
Thermoid Corp.	5.97	.19	1.11	1.00	Nil	.55	10	C+2	Fabricator of asbestos, rubber and plastic items for automotive and other industries. Prewar record uninteresting. Outlook fair. Dividend may continue.
X Thompson Prods.	47.60	2.68	5.18	4.00	1.11	2.00	11	B—2	Long established producer valves, pistons, etc. Bright automotive outlook enhances prospects but aircraft earnings will decline. Dividend safe.
Timken Detroit Axle	24.86	2.18	4.95	5.00	1.50	2.00	8	B—2	Leading maker heavy axles for trucks, buses, tractors. Oil burner sales profitable. Prospects postwar favorable. Dividend not likely to change.
X Timken Roller Bearing	23.12	2.99	2.60	2.50	3.06	2.00	21	B2	Dominant producer anti-friction bearings for automobiles and industrial machines. Makes own steel. Average earnings good. Prospects justify continuation present dividend.

(a)—Excl. of 100% stock dividend in Feb. 1936. (b)—Excl. of 100% stock dividend in June 1936.

about $900 million down to thousands of small accessory concerns with treasuries bolstered by wartime earnings, cash resources are ample to carry through the difficult period. Reports of profits during the next six months or so will vary widely, some appearing dismal, to say the least, while others may remain upon a fairly even keel, but thereafter the stage appears set for a period of substantial profits and perhaps more generous treatment of stockholders.

Huge Deferred Demand

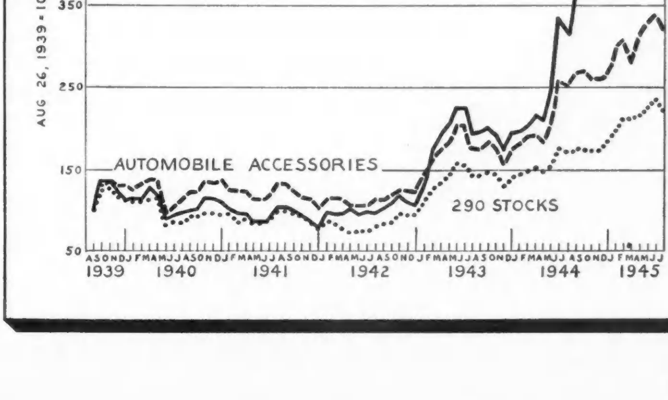
As no nation is so automobile-conscious as our own, common awareness of a huge deferred demand for cars and trucks is a natural corollary. Factually, the average age of both these transportation media now in use is about 7½ years, fully twice the age considered antiquarian by the average prewar car owner. As it is, about 3000 cars daily go to the junk pile, and it has been only due to lack of gasoline and tires that car longevity has beaten all previous records. Estimates that the industry will find a market for perhaps 6 million units a year for some time to come, or far above prewar peaks, accordingly have a sound basis and if these hopes are realized, earnings potentials for the industry are indeed promising.

Cautious prophets of postwar demand for cars realistically point to a prospective drop in national income from currently $150 billion to perhaps $110 billion postwar as a potential check upon car buying urges. Furthermore, the fact that forthcoming models generally will differ only slightly from those of 1942, and that trade-in values for old cars may drop radically, is thought might also temper buying enthusiasm. But as an offset to these possible restraining factors, so few cars will be available in relation to demand for many months that sales resistance may be quite unimportant and if car owners insist upon getting the last mile out of their old models, demand for replacement parts on which profit margins are widest will importantly swell earnings of the manufacturers. As for trucks and buses, operational efficiency rather than psychology is the determining factor in creating demand, and while surplus military trucks for a time may compete with new models, their deterioration and relatively heavy weight will limit their marketability.

Impending tax relief promises to widen profit margins of many concerns even if costs do rise to some extent during the period ahead, and while the Government still has not clarified postwar price ceilings, it is outspoken in its recognition that industry must be assured of reasonable profits. When production reaches a level more nearly in balance with demand, thus reducing inflationary potentials, car prices will be left to the discretion of the manufacturers. In any event, the enormous reconversion expenses of many concerns will be importantly offset by the recently granted tax credits applicable to these outlays; of more permanent benefit will be the easing or elimination of excess profits taxes. In 1944, EPT took a toll equal to $27.46 per share in the case of Bendix Aviation, $18.75 for Bohn Aluminum, $11.57 for Borg Warner. $17.01 for Briggs and Stratton and $16.46 for Kelsey-Hayes, to mention but a few. Many others paid substantial amounts dollarwise but less on a per share basis. Chances are strong that with tax relief, with plants tooled up with modern improvements and with an abundant supply of raw materials, managerial know-how will produce some interesting results in the way of cost reduction.

With demand unlikely to be fully satisfied for several years to come, competition for some time will be less of a factor although in the long run, as in the past, the element of competition will again bulk large. Near-term opportunities for the independents and newcomers are of course outstanding, as any car manufacturer able to deliver anything on four wheels should experience little difficulty in finding a customer. When the saturation point arrives, however, as some day it surely will, lowest costs inevitably accrue to concerns enjoying major volume and when a price war starts, the odds are heavily against the smaller concerns.

The "big three" start the competitive battle where they left off at the outbreak of the war with General Motors enjoying about 45% of consumer popularity, Chrysler about 25% and Ford 20%, leaving only 10% for all other concerns in the field. Relative working capital of these concerns is $900 million for General Motors, $400 million for Ford (estimated) and $200 million for Chrysler, thus liquid resources of the trio are indeed abundant and can hardly be matched by the others. Much secrecy covers technical improvements of the new cars, new machinery and operations based upon wartime experience, as well as coming list prices. Both Ford and General Motors have announced that at least one new model will be lower-priced than their regular series, but just how these will compare remains to be seen. (*Please turn to page* 617)



RAIL EQUIPMENTS over near and longer terms

BY H. S. COFFIN

WITH need for adequate transportation a primary requirement of all nations in the restoration of their economies to a peacetime basis, makers of railway equipment unquestionably rank near the top in clear-cut potentials for postwar activity. In sharp contrast with the voluntary scramble for durables by affluent civilians as such items become available, locomotives, railway cars and their essential equipment are in obligatory demand, and no doubt exists as to the ability of the railroads to pay for them. Now that at long last a flood of raw materials will soon facilitate peak operations, possibilities of this industry for profitable extension of its wartime record assume unusual significance.

Bracing this optimistic premise is the fact that reconversion problems for most components in the industry are negligible, in fact entirely absent in the case of the locomotive builders whose wartime production of tanks and other heavy munitions had largely ceased several years ago, in view of the pressing military demand for their regular output. As for the makers of cars and numerous railways accessories, consistent adherence to normal schedules during war years to the extent that raw materials were available, is enabling many to tackle a rising tide of peacetime business with little interruption. Thus on top of four years of reasonably profitable operations appears an approaching period, likely to last for several years more, when large volume should produce net earnings well above prewar levels, and with practically no delay the industry is in a position to benefit from its opportunities.

New York Central System

A clue to the comfort of postwar travel—Empire State Express, the last development before Pearl Harbor.

Just how much activity may be expected in the first full year of postwar is highlighted by a recent survey released by the Committee for Economic Development. While, compared with 1939 volume and prices, anticipated production of the automobile industry is given top rank in our economy with a prospective gain of 75.8% during the period mentioned, a close second place is accorded the manufacturers of other forms of transportation items, the expected relative volume gain expected to reach 74.3%. As the automotive industry, by and large, will be hampered by serious reconversion delays, builders of locomotives, railroad cars and allied equipment may well emerge a year from now leading the nation in the race to better prewar records, although they may not fully hold the lead for any considerable length of time. Be that as it may, with the over-all gains of nine leading durable goods industries during the first full postwar year of production estimated at an average of 50.3% relative to 1939, and with relative gains of ten industries producing non-durables placed at an average of only 35.7%, the suppliers of essentials for the railroads evidently enjoy unusually bright prospects over the medium term, and perhaps for the next four or five years.

Currently, of course, net earnings are tending to dip slightly compared with results for the two previous years, due to abrupt cancellation of military orders and a necessary lag in taking up the slack by regular line work, but thereafter, the earnings trend should be upward. This interim period has little significance for investors in view of the more important aspects of an extended prosperity period thereafter, and when earnings reports for the current quarter appear, they should be appraised in the light mentioned. 1945 to date has been marked by unusual handicaps for this industry because of shortage of manpower and materials, and while the picture now presents a radical change in the supply of these essentials, the improvement naturally will not come overnight. And it does take time for the railroads, too, to figure their most pressing require-

ments now that chances for delivery have improved.

Imperative domestic demand for rolling stock has been greatly accentuated because at the outbreak of war, a full decade had elapsed during which replacement had progressed at a rate far below normal, and since Pearl Harbor the wear and tear upon a predominant supply of already obsolete equipment has been terrific. And what limited amounts of new cars and engines it was possible to produce under the exigencies of war had to be shared with our Allies. In 1943, for example, when domestic output of freight cars reached a modest level of 67,739 units, 47,117 were for foreign account, leaving only 24,622 for our own hard pressed railroads. Of 42,000 locomotives now hauling trains and shunting freight cars in the switch yards, less than 25% have been built during the past 20 years, and wartime technological progress to reduce operating costs has greatly increased the obsolescence of even the latter, in first class operating condition though they may be. Indubitably, domestic demand for some years to come should soar to 2000 locomotives annually, enough to tax the plant capacity of their builders, and in no other category is competition likely to be keener, in view of the newly developed engines deriving power from steam, gas and diesel turbines and electricity, all contending for supremacy.

Capacity to build freight cars, not including facilities of the railroads themselves, is estimated at about 160,000 units a year, and to engage this output is a deferred demand estimated at around

Position of Leading Railroad Equipment Stocks

	In Dollars Per Common Share								
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Price Earnings Ratio	Investment Rating	COMMENT
American Brake Shoe	$39.28	$2.60	$2.77	$2.85	$2.06	$1.65	16.0	B1	Well entrenched concern, strongly financed and with good earnings record. Diversified output. Outlook for continued prosperity good. Dividend assured.
X American Car & Foundry	82.99	def 3.50	7.19	7.00	.06	2.50	7.5	C+1	Second largest freight car builder. Heavy product demand next few years indicated. Earnings have cyclical volatility but near term dividends safe.
X American Locomotive	12.59	def 1.58	4.58	4.50	Nil	1.30	7.3	C+1	Sizable domestic, foreign demand suggest profitable period ahead. Strong trade position, ample finances enhance outlook. Dividend well secured.
X Baldwin Locomotive	36.21	1.05	3.81	2.75	Nil	1.50	6.8	C+2	A leading specialist with excellent postwar potentials, dependent upon duration economic boom. Well entrenched. Dividend amply earned.
W General Amer. Trans.	65.26	3.53	3.05	3.00	2.78	2.50	16.7	A2	Important in leased car field. Builds both cars and buses. Unusually stable record earnings and dividends. Prospects for continued prosperity good.
General Railway Signal	26.64	.31	2.50	2.75	.43	1.25	12.7	B2	Strong trade position fortified by good patent position. Earnings varied in prewar but currently ample to sustain dividend rate.
X Lima Locomotive	74.48	def .11	6.81	6.15	.63	2.50	7.5	C+3	Nature of business unstable but medium term outlook bright. War earnings have improved working capital. Conservative dividend widely covered.
New York Airbrake	38.34	2.18	3.36	3.25	1.44	2.00	14.5	B2	Has large backlog of orders and for several years should enjoy good business. Fair coverage of dividends likely to continue.
Poor & Co. B	Nil	.46	1.44	1.25	Nil	.50	11.8	C+2	Important maker of track accessories. Promising postwar demand. Debt reduction and improved liquid resources favor dividend position.
X Pressed Steel Car	10.51	.87	2.23	2.00	.06	1.00	9.1	C+2	Ranks third among freight car makers. Sales, profits broadly affected by business cycles. Current outlook promising, dividend seems safe.
W Pullman	55.49	1.63	3.99	3.50	1.66	3.00	12.9	B1	Outlook for this leading car builder excellent. Ample cash resources will broadly expand when sale sleeping car business develops. Dividend safe.
Superheater	17.80	1.06	1.76	1.60	1.17	1.20	13.3	C+2	A leading maker of boiler equipment, well diversified in other lines. Strong financial status and bright prospects strengthen dividend position.
Symington Gould	7.85	.59	.55	.60	.21	Nil	17.5	C2	Maker of castings, with finances improved by war earnings. Prewar record erratic. Postwar progress not clear although current small dividend may continue.
W Union Tank Car	32.89	1.67	2.18	1.90	1.35	2.00	13.4	B2	Dominant lessor of tank cars with excellent earnings record. Outlook for continued prosperity postwar favorable. Working capital ample. Dividend stable.
Westinghouse Air Brake	17.09	1.25	1.68	1.50	1.06	1.25	20.3	A2	Dividend payer for half a century. Sure to get share near-term large business. Strongly financed. No change in dividend.

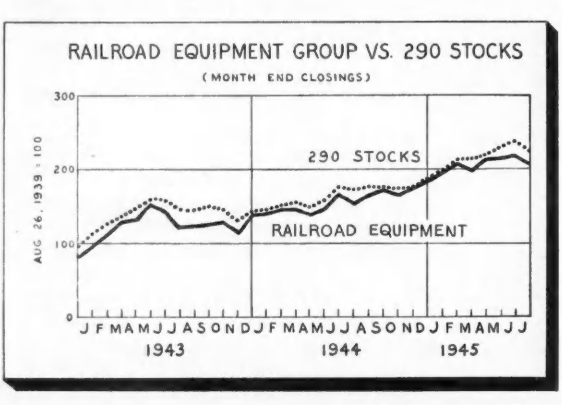
300,000 units from domestic users alone. Compare these figures with deliveries of only 28,750 cars made during the first seven months of 1945 by car builders plus an additional 7,923 produced in railroad shops and the potentials for expanded production during several years to come appear obvious.

Passenger cars, too, the production of which has been practically non-existent since 1942, will have to be built on a large scale in the immediate years to come, and while numerically they are less important, their relatively higher price and wider profit margins boosts volume and earnings for their builders. So short in supply have cars of this character been from the very start of the war that the Pullman company was obliged to retrieve from the "boneyard" several hundred units, with Government permission, and patch them up for further extended use. Under wartime restrictions, only 100 new passenger cars were scheduled for production during the last half of the current year, a rate which of course will now be immediately accelerated and is likely to reach a mark of at least 1000 per year as the postwar period unfolds; new standards of convenience and safety will prolong the period of prospective above-average demand.

Outlook of the railroad equipment industry is always conditioned strictly upon the financial status and prospects of its limited clientele, the transportation lines, and fortunately never in history have the railroads been so well heeled financially as at present. With current working capital nearing the $1.7 billion mark, compared with about $540 million just before the war and less than $120 million at the end of 1930, with a 45% reduction in outstanding debt and with fixed charges shaved by many millions annually, ability of the carriers to purchase their requirements is outstanding. Under any conditions, rolling stock has always been considered one of the most desirable forms of banking collateral, a circumstance warranting loans at minimum rates in the current extremely easy money market. Ample cash resources, therefore, are immediately available to pay for all the rolling stock which the equipment makers can turn out.

If the foregoing comments arouse enthusiasm over the medium term prospects of the railroad equipment industry, caution must not overlook the normal instability of the business over an extended period, for many of the factors discussed, if placed in reverse, can produce sharply restricted results for practically all concerns dependent upon railroads for volume. Such has been the case during every economic depression in the past and is certain of repetition in the future should a downward swing in economic prosperity appear on the horizon or should demand for railroad equipment reach a saturation point, as well may be the case some time in the future. In contrast to many other durables, such as automobiles with an average longevity of a few years only, a railroad car or locomotive is serviceable for at least twenty years, and as recent years have proven, even these limits can be stretched in a pinch. When railroad revenues decline rapidly in bad times, business for the equipment producers goes into a tailspin, as may be illustrated by orders received during the dark years of the early 1930s.

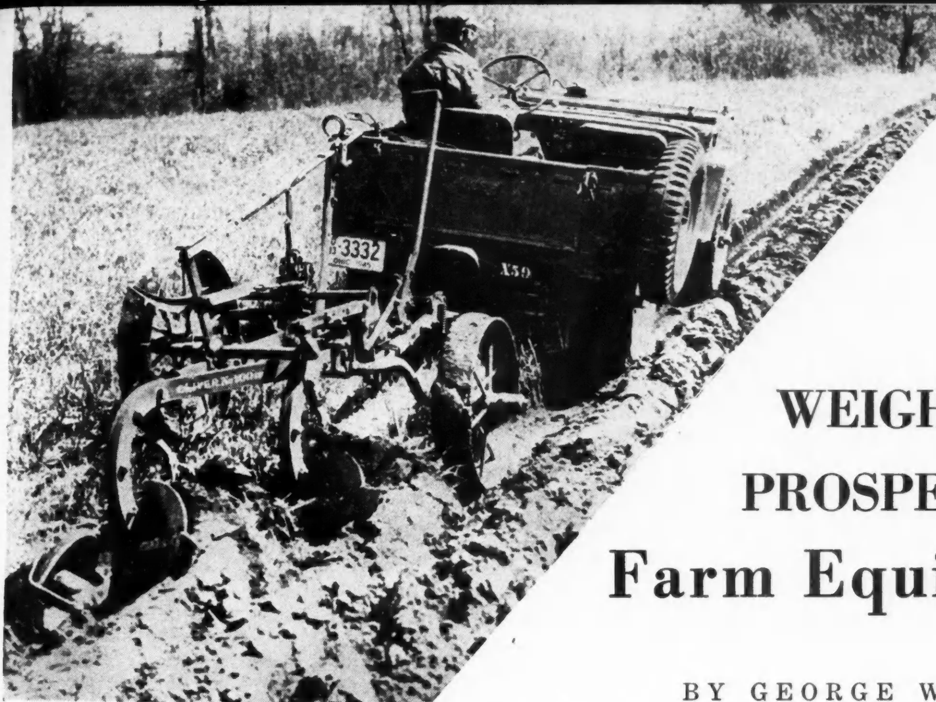
In contrast to average annual orders for over 1000 locomotives, 84,000 freight cars and nearly 2000 passenger cars received in the 1923-1930 period, in 1931 total orders for locomotives fell to eleven, freight cars to less than 11,000 and passenger cars to 176. Moreover, almost a decade had to pass before the equipment makers generally were able to resume dividend distributions. While it is to be hoped that history will not repeat itself, the inherent volatility of the industry is inescapable and, with few exceptions, shares of its many components are broadly speculative.



Short-term vs. Long-term Aspects

Encouraging aspects for the immediate postwar period, however, for the moment outweigh the traditionally cyclical elements, hence it is appropriate to focus attention on nearer term perspectives. Railroad equipment builders by no means have to rely upon domestic business only, as foreign sales promise to bulk large in the postwar picture. Rolling stock all over war-torn Europe has either been ruined or is in deplorable condition. Orders for 700 locomotives to restore a measure of equilibrium in France are already nearing a delivery status, and important orders for England, Russia, China and a long list of oversea countries await only definite agreements as to payment. Latin-American countries, too, with Chile alone dickering for $10 million in railroad equipment, offer broad potentials for rapid exploitation. It is clear that as a corollary to worldwide industrialization, railroad equipment will be a primary essential.

With well assured volume in sight, main question now uppermost is what profit potentials attach to the early postwar operations of the railroad equipment builders. Working capital of the majority, by retention of wartime earnings or by financing at low rates, is either at peak levels or at the highest level for the past fifteen years. Some further rise in wage costs may tend to squeeze profit margins as long as price ceilings are in effect, and for a good many months to come the upward wage trend may prove to be an important factor. Offsetting this, or in any event heavily cushioning the effect, should be the benefit soon to be realized from declining taxes, as many a concern in this industry presently is struggling under a heavy burden of excess profits taxes. The 1944 levy of EPT, for instance, on American Car & Foundry Co. amounted to $25.46 per share, $16 per share in the case of American Locomotive Co., $23.35 for (*Please turn to page* 621)



The Postwar Jeep In Action

Willys-Overland Motors Photo

WEIGHING THE PROSPECTS FOR Farm Equipments

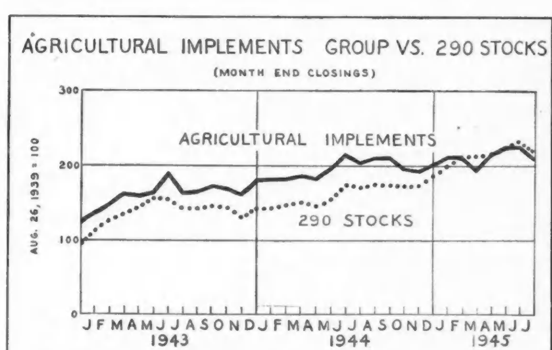
BY GEORGE W. MATHIS

THE year 1945 to date has been favorable for makers of farm machinery and with an upsurge in obtainable raw materials, plenty of workers and all Federal restrictions except price ceilings tossed to the winds, exploitation of rich farm markets should rapidly expand. With all possible Government co-operation the industry for many months past has been making strides to increase regular line output at the expense of military production, so that with the war's ending it is in the last stages of reconversion, all set to meet the largest and most clearly indicated demand in its long history. While fullest employment of facilities will not be practical for a few months yet, prospects are that thereafter volume as well as earnings may continue for a number of years at a level well above prewar.

No segment of our population has made a better war record nor been more liberally rewarded for their all-out efforts than the nation's farmers, and for the next two years, price support for their products has been guaranteed by the Government. A recent article in the Magazine predicted that farm income in the current year would top $20 billion, making total cash intake of our agriculture over a five year stretch the sizeable figure of over $75 billion. As the farmer is naturally thrifty and self-sustaining, farm debts have been drastically cut and cash resources accumulated at a record rate. Granted normal weather conditions and national income sustained at high levels, factors strongly bearing on agricultural prosperity, affluence of the farmers is likely to expand still further during the next few years, sustaining their already above-average ability to purchase efficient tools for their profession.

That farmers have been able to achieve such an amazing degree of production efficiency during war years, with farm population dipping 16% and a 150% climb in wage rates, can only be attributed to widespread utilization of mechanized equipment. For years past, large scale farming has lowered operating costs through the use of power units, but to abolish hand and horse power has been a slower process on many of the 6 million farms throughout the country. The general trend towards mechanization, however, has been greatly stimulated by the exigencies of wartime experience and equipment manufacturers have been alert to provide a broad line of smaller and less expensive machines to fill the requirements of every agriculturalist — large and small—not even forgetting the Victory gardener. As a result, some 50,000 farmers annually have abandoned animal power in favor of tractors, and with replacement demand boosting volume, farm equipment makers normally derive about half of their dollar receipts from tractor sales and their parts.

While wartime production of farm machinery has been larger than might be realized generally, amounting to almost $700 million (including parts) for the year ended June 30, 1945, and sure to expand rapidly in coming months, demand has consistently far exceeded supply, and only with the lapse of several years time does it appear possible



to satisfy the deferred requirements. Slow retirement of tractors during war years has built up a backlog in excess of 250,000 units which should be in demand in addition to normal future replacements and a rising tide of machines for new buyers the latter likely to be numerous as a result of lessons learned in mass production by power.

Unusually heavy foreign demand also will strain capacity of the farm machinery industry for restoration of agriculture in the war-torn countries of Europe and the Far East is a primary objective in all postwar planning and among our Allies, demand for American made farm equipment has always been important, swelling volume and profits for its makers. In all important nations of the world, the largest of our domestic concerns have been strongly entrenched for years past and currently are fully prepared to make the most of their foreign opportunities. Sales prospects are strongly outlined in the Canadian and Australian markets, Russia, Latin-America and other agricultural areas; tractor demand in even North Africa is estimated as over 10,000 units, to mention a minor expectancy.

So well defined are the overall prospects of the industry, that if postwar volume for the next few years tops $1 billion, as was the case in 1944, the circumstance should occasion no surprise. Fact is that civilian output last year amounted to about $700 million, but production of military tractors accounted for most of the balance, and tight pricing for the latter tended to restrict volume. With proven ability to produce at the rate mentioned, and with orders calling for full capacity operations, chances for sustaining volume at this high level are good from a conservative viewpoint. As previous peak volume of farm equipment during war years was only $653 million in 1941 and the average for six prewar years well under $500 million, profit potentials from an almost doubled volume become decidedly significant, especially if continued for a substantial period.

Profit margins on the extremely broad line of offerings by the various manufacturers vary widely, but as in the case of the automobile industry, these margins are a good deal wider upon parts and special attachments than upon standard operating units. How important this may be in the earnings picture may be judged by the fact that in normal years about 20% of sales has been represented by these more profitable items, and as more and more machines come into use, replacement demand for parts expands and tends to stabilize dollar sales. In 1944 the production of parts and attachments had grown to $224 million compared with a peak of $134 million during the previous five year period, and in this industry production and sales tend to balance closely. The main point is that postwar earnings may be progressively swelled by demand for these special products.

Second in importance as to volume are farm tractors, and well sustained mass production of these by improved techniques and modern machinery should support earnings on a high level. By offerings of small but efficient machines with wheels adjustable to rows of different width, the strongly established dealer outlets of the manufacturers are steadily winning the farmers over to substitution of power units for their cruder operating methods which bit deeply into crop earnings. Sales resistance is greatly lessened because the proper machinery rapidly pays for itself.

Additionally in strong demand will be a long list of mechanized equipment and essential implements, ranging from huge com- (*Please turn to page 623*)

Position of Leading Farm Equipment Stocks

	In Dollars Per Common Share								
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Price Earnings Ratio	Investment Rating	COMMENT
X Allis Chalmers	$39.49	$2.73	$4.77	$4.50	$1.94	$1.65	10.0	B2	A leading maker farm machinery, motors, pumps, etc. Postwar earnings outlook bright. EPT cushion heavy. Dividend distributions may become more liberal.
Case, J. I.	48.98	2.03	1.92	1.80	.94	1.75	20.1	C+3	Makes complete line farm machinery. Large postwar tractor demand enhances prospects. Dividend appears secure.
X Deere & Co.	40.01	4.48	2.87	2.70	1.03	2.00	14.8	C+2	Ranks second in industry, making broad line. Large cash resources ample for expanding output. Reconversion nearly complete. No change in dividend.
International Harvester	86.21	3.90	4.61	4.50	2.56	2.85	18.4	B2	Dominant in domestic field and has large foreign outlets. Financial strength great. Postwar outlook suggests uptrend in earnings. Dividend amply earned.
Minneapolis-Moline	7.28	.18	.96	.90	Nil	Nil	10.1	C2	Smaller maker various farm machinery and power units. Midwest chief market. Policy to fortify working capital by retention earnings precludes nearterm dividends.
Oliver Corp.	38.64	1.51	2.64	2.50	Nil	1.50	10.2	C+2	Fair-sized producer of farm machinery with decentralized plants. Consistent improvement working capital late years. No change likely in current dividend.

POSITION OF MISCELLANEOUS COMPANIES

	In Dollars Per Common Share								
	Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Price Earnings Ratio	Investment Rating	COMMENT
American Can	$57.00	$5.86	$4.30	$4.50	$4.50	$3.00	22.8	B1	Dominant maker of containers. Highly mechanized operations and easing steel supply expanding volume. Postwar prospects bright. Dividend appears secure.
American Chain & Cable	19.36	2.13	2.93	2.50	1.21	2.00	10.2	C+3	Important specialist in field. Decline of war orders likely to reduce volume, but 50 cents quarterly dividend probably safe. Financial position sound.
American Hide & Leather	6.49	def .09	.34	.55	....	....	23.5	C1	Promising civilian shoe demand should support profits but working capital needs preclude dividend distributions.
American Home Products	26.58	4.17	5.21	4.80	2.56	2.70	14.9	A2	Dominant in pharmaceuticals. Excellent earnings record. Promising world wide demand and wide diversification imparts growth characteristic. Dividend secure.
American Safety Razor	19.22	1.99	2.91	3.00	1.79	1.25	8.0	B2	Second largest in special field where competition severe. Current profits good but may shrink postwar. Dividend safe near term.
American Type Founders	21.64	.26	1.60	1.25	....	.50	10.9	C+2	Largest supplier printing trade. Decline in war output should be offset by demand regular products, safeguarding current dividend.
Archer-Daniels-Midland	64.84	2.93	8.59	6.50	1.84	2.50	8.0	B3	Prominent processor vegetable oils with satisfactory earnings record. Favorable postwar outlook enhances prospects well sustained dividends. EPT cushion heavy.
Artloom	11.41	def .09	.36	.20	....	.40	37.1	C+1	Small maker rugs and carpets. War earnings fair. Postwar demand heavy but reconversion slow. Dividend prospect not entirely clear.
Bristol-Myers	19.66	3.35	3.66	3.65	2.50	2.00	14.0	A2	Third largest maker of proprietary drugs with well established brands. Long record stable earnings. Every assurance continued dividend.
Brown Shoe	54.44	2.44	3.19	3.50	2.43	2.00	16.6	B—2	Ranks third as maker lower priced shoes. Large deferred demand brightens near term prospects. 50 cents quarterly dividend amply earned.
Carrier	15.75	.17	2.83	2.75	....	....	8.8	C+2	Leading maker air-conditioning equipment. Finances improved by retention of earnings. Dividend possible when building boom gets under way.
Celanese	17.87	1.95	2.87	3.00	1.06	.50(a)	16.9	B2	Maker of rayon yarns, fabrics and plastics. Increased facilities enhance outlook long term growth. Satisfactory dividends likely to continue.
Champion Paper & Fibre	39.92	1.37	2.07	2.10	.90	1.00	16.6	B2	Low cost producer book paper, well integrated, strong trade position. Improving pulp supplies brighten outlook. No dividend change likely.
Cluett Peabody	20.98	2.01	2.51	2.75	1.48	2.00	16.8	B2	Well entrenched trade position, earnings bolstered by sanforizing royalties. Raw material shortage limiting current volume but dividend secure.
Continental Can	34.65	2.78	2.12	2.15	2.56	1.00	20.8	A2	Ranks second in container industry. No reconversion problems to delay resumption civilian output. Dividend coverage ample.
Continental Diamond Fibre	14.66	.48	.84	.60	.84	.50	14.8	C+2	A leading maker insulating products and synthetic materials for containers. Prospects postwar fair but prewar record variable. Dividend safe near term.
Crown Cork & Seal	42.27	2.68	3.74	3.60	1.75	2.00	10.9	B2	A leading manufacturer of containers and caps, with promising postwar potentials. Finances strong and dividend safe.
Dresser Industries (c)	16.06	.68(b)	2.44	2.75	.10	1.00	11.8	B—1	Rapidly growing maker oil field equipment. Well prepared to exploit domestic, foreign postwar markets. No change in dividend likely.
Endicott Johnson	90.17	2.68	3.34	3.50	3.00	3.00	21.6	B2	Dominant factor in shoe field, with heavy deferred demand enhancing prospects. Strong trade position. Dividend appears secure.
Gaylord Container	17.54	1.61	1.51	1.60	....	1.00	17.3	C2	Integrated maker corrugated and fibre paper products with fair earnings capacity. Heavy postwar demand likely to sustain net. Dividend safe.
General Bronze	13.11	def .26	1.83	1.75	....	.80	11.0	C2	Good wartime record but poor former earnings make peacetime progress uncertain. Small dividend safe over near term.

(a)—Plus 1 share stock for each 23⅓ shares held. (b)—1938-9 Average. (c)—All figures adjusted for 2-for-1 stock split in 1945.

POSITION OF MISCELLANEOUS COMPANIES—(Continued)

	In Dollars Per Common Share — Book Value	1936-9 Avge. Net	1944 Net	Estimated 1945 Net	1936-9 Avge. Div.	1944 Div.	Price Earnings Ratio	Invest-ment Rating	COMMENT
Glidden	28.56	1.82	2.02	2.00	1.40	.90	14.6	C+1	Leading paint manufacturer and producer vegetable oil items. Well financed and postwar earnings prospects bright. Current dividend easily warranted.
Gotham Hosiery	$ 6.85	$ .25	$1.09	$1.20	$......	$ .50	17.8	C+1	Prominent maker women's hosiery, with outlook improved by shift from silk to synthetic and cotton thread. Status assures current dividend.
Hat Corporation of America	5.83	.98	.64	.65	.53	.50	15.2	C+2	Manufacturer and retailer Knox, Dunlap and Dobbs hats. Earnings fair in good times. Finances ample and dividend currently safe.
Hollander (A.) & Son	16.01	.97	1.58	......(c)	1.19	1.50	10.7	C+3	Largest factor in curing and dyeing furs, with business on fee basis. Net varies with luxury demand. Dividend currently safe.
Interchemical	43.28	2.31	2.44	2.60	1.29	1.60	18.4	B1	Important ink maker, lately diversifying in paint field. Potential broad markets enhance sales, earnings prospects. No change in dividend likely.
International Paper	46.56	.05(a)	2.09	2.25	......	......	13.2	C+2	Largest paper producer in world, completely integrated. Earnings retained to build up working capital. 1944 EPT equalled $10.26 per share.
International Salt	43.76	2.04	2.70	2.20	1.87	2.00	15.5	A3	Leader in its field, well integrated and with stable record of earnings. No change in dividend indicated.
Kimberly-Clark	60.85	3.06	3.09	3.15	1.19	2.00	15.3	B2	Integrated producer book paper and wadding specialties. Outlook enhanced by strong contract position and good finances. Dividend appears secure.
Lambert	11.30	1.66	2.75	2.70	1.75	2.00	12.5	B2	Specialist in oral antiseptics and kindred items. Diversification tends to stabilize earnings. Dividend well assured.
Lehn & Fink Prod.	12.56	1.42	1.76	1.35	1.34	1.40	12.9	B3	Important producer drug specialties, many with established brands. Ample working capital warrants sustained dividend payments.
Mohawk Carpet	37.59	1.35	2.33	2.00	1.13	2.00	18.8	B2	Leading maker of floor coverings, with bright postwar prospects but difficult reconversion problems. Dividend barely covered.
Novadel-Agene	8.21	3.12	2.38	2.30	2.54	1.50	14.0	B2	Well financed concern specializing in bleaching material for flour millers. Fair earnings, dividend record likely to continue.
Omnibus	10.64	1.27(b)	1.58	1.60	1.07	1.00	8.3	C2	Holds controlling interest New York and Chicago bus lines. Unimpressive record and doubtful prospects make stock speculative.
Pratt & Lambert	33.93	2.09	2.28	2.25	1.79	1.80	16.4	B2	Well entrenched maker of paints and varnishes, soundly financed. Postwar outlook favorable. Dividend well assured.
Savage Arms	14.11	.42	.68	.50	.25	.75	15.6	C2	A leading producer of small arms, facing major contraction of war business. Volatile earnings detract from investment appeal.
Simmons	22.44	2.52	2.56	2.00	2.06	1.25	14.0	B1	Large producer of beds and sleeping equipment. Substantial postwar demand enhances prospects. No dividend change likely.
Sutherland Paper	25.43	2.46	2.47	2.30	1.47	1.35	13.7	B2	Large producer paraffined cartons, but not integrated. Earnings record good although growth trend not marked. Dividend should continue.
United Drug	15.43	.85	1.62	1.60	.31	......	11.6	C+2	Important maker and retailer drugs, cosmetics, etc. Large amount senior securities precludes near term common dividend.
United Dyewood	2.20	.93	def 1.13	......(e)	.75	......	......	C3	Manufacturer synthetic dyes with unimpressive record of progress. Unless postwar improves outlook, stock not interesting.
U. S. Foil B	13.37	.47	.74	......(e)	.35	.30	14.8	C1	Owns majority interest in Reynolds Metal. Prospects thus depend entirely on outside income but outlook on the whole promising.

(a)—1937-9 Average. (b)—Company only. (c)—Net of $1.64 for 6 months ended June 1945 as compared with $2.01 for similar period 1944. (e)—No basis for a reliable estimate.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: While high grade bonds have remained steady in price since the collapse of Japan, railroad bonds have been adversely affected reflecting a more saner appraisal of prospects during the post-war period. The Dow-Jones bond average for forty bonds was off .98 from two weeks ago, closing at 105.61. However, more drastic declines were shown in the Dow-Jones average for second grade rail bonds which showed a decline of 3.39 in the same period, while the average for defaulted rail issues was off 3.71. Tax-exempt municipal bonds worked lower in moderate dealings and carried the average issue back to the level obtained in January 1945. The indicated price decline since the record top — 1.49% for the yield index — was established last April amounts to approximately 5%.

In the foreign field, Antwerp 5s were off 3⅞ and some of the Brazilian issues were off several points.

Real Estate bonds have shown considerable hesitation recently, although no break occurred in the upward trend that has persisted without interruption for more than three years.

REAL SILK HOSIERY MILLS INC.: This company has declared a dividend of $13.50 on its 7% cumulative preferred stock of which $11.75 is in payment of all remaining accumulated unpaid dividends and $1.75 constitutes the current quarterly dividend due October 1st. It also declared a regular quarterly dividend of $1.25 on its 5% prior preferred "A" stock. Both dividends are payable October 1st to stockholders of record September 15th.

FOREIGN BONDS IN DEFAULT: Approximately 49½% of the $4,700,000,000 of foreign dollar bonds outstanding were in default as of December 31, 1944, according to a report issued by the Foreign Bondholders Protective Council, Inc. covering the years 1941 through 1944. This compares with the approximately 43% of foreign dollar bonds in default at the start of 1941. It reflects increased default among European and Far Eastern issues occasioned by the spread of war in these areas.

Full service, interest and sinking fund, was paid last year on 95% of the Canadian dollar bonds, on 44% of the Far Eastern and African totals, on 37% of the Latin American issues and on 13% of the European dollar bonds.

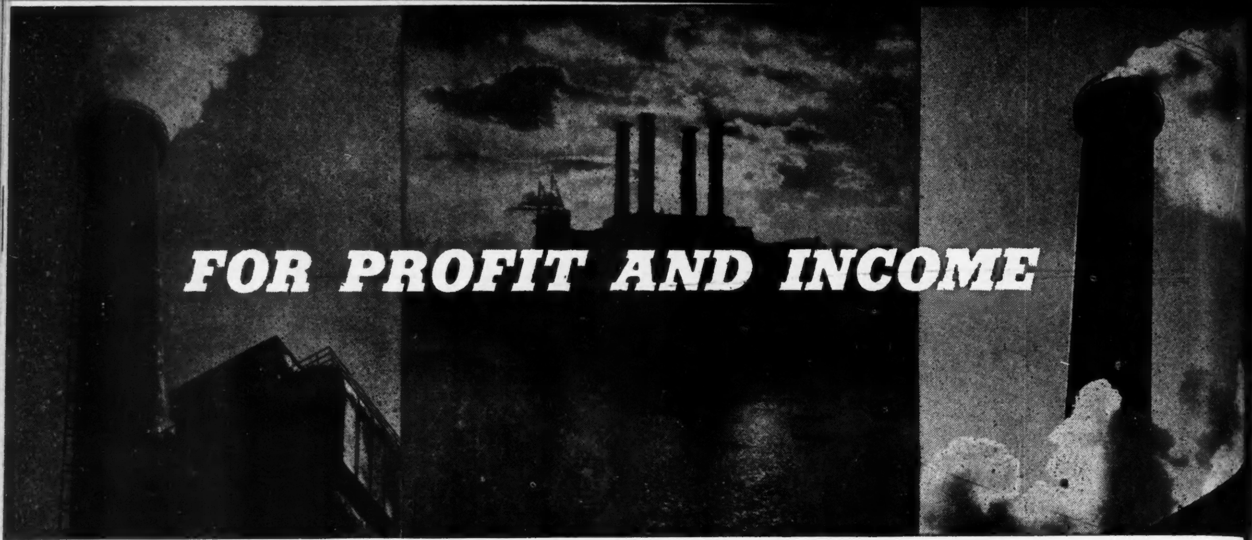
The $4,700,000,000 of outstanding foreign dollar bonds represented unmatured or unpaid totals of issues originally marketed in the amount of $6,800,000,000. The over-all total of foreign bonds issued in the decade following World War One has been estimated at between $8,000,000,000 and $9,000,000,000. This would indicate, according to the report, that of the total amount originally issued, bond issues amounting to between $1,200,000,000 and $2,200,000,000 had been redeemed or otherwise retired. Of the remaining issues, another $2,100,000,000 had been redeemed or otherwise retired.

All Canadian provinces except one continued payment of debt service in full; and all municipalities with two exceptions where readjustments or repayment offers were pending. Of sixteen Latin American countries accounting for $1,400,000,000 or 29.2% of the total, only Guatemala had no issues in default. Argentina, Cuba, the Dominican Republic, Panama and Uruguay were making full payments under readjustment or conversion plans. Bolivia, Costa Rica, Ecuador, El Salvador and Peru continue in complete default on all outstanding dollar issues. Of twenty European countries accounting for approximately $1,200,000,000 or 26.3% of all dollar bonds, Finland, France and Ireland were the only ones paying full service on issues, direct and guaranteed. Denmark and Norway paid full interest, but sinking fund and principal maturities were not met on Danish bonds and there were sinking fund defaults on state and city issues of Norway. Belgium paid full service on certain numbered bonds of its national issues, but city bonds were in complete default.

CUDAHY PACKING CO.: Stockholders of this company have authorized the *(Please turn to page 620)*

Bonds Called for Redemption Recently

Company	Amount	Call Price	Redemption Date
Atlantic Sugar Refineries, Ltd. 1st 15-yr. 4s 1951	Entire	102	August 15
Mountain States Pr. Co. 1st 4¼s 1965	Entire	104	August 17
Penn. Tel. Corp. 1st 3¼s 1969	Entire	106	August 20
Bethlehem Steel Corp. Cons. S.F. "G" 3s 1960	Entire	103	August 24
Bethlehem Steel Corp. Cons. S.F. "H" 3¼s 1965	Entire	105	August 24
Ohio Water Service Co. 1st 4s 1964	Entire	106	August 29
Skelly Oil Co. Deb 3s 1950	Entire	101½	August 29
Arkansas & Missouri Pr. 1st "A" 4s 1965	Entire	104¾	August 30
Dow Chemical Co. 10-yr. deb: 2¼s 1950	Entire	101½	Sept. 1
Dow Chemical Co. Serial Debs 1946-50	Entire	100	Sept. 1
Pontiac (City of Mich.) 1934 Ref. Series B 1964	Entire	100	Sept. 1
Quincy Elec. Light &Power 25-yr. 1st "A" 5s 1947	Entire	100	Sept. 1
Schenley Distillers 10-yr S.F. Deb. 4s 1952	$1,200,000	100	Sept. 1
Schenley Distillers 10-yr Deb. 4s 1952	Entire	102	Sept. 1
Standard Oil Co. of N. J. 15-yr. Deb. 2¾s 1953	Entire	101½	Sept. 1



FOR PROFIT AND INCOME

Split Market

So far there has been selective demand for enough industrials to hold the Dow industrial average appreciably above its July 26 low, but the rail average celebrated the dawning of peace with further sharp decline. We don't see why there should be cosmic significance in this, Dow Theory to the contrary notwithstanding. Rails are one of many individualized groups of stocks. So are aircrafts. So are the shipbuilding stocks. There are special and obvious reasons why all three of these are now out of investment and speculative favor. But there are a number of stock groups to which these reasons do not apply. Must they decline because rails are weak? They will, of course, if enough people believe the technical mumbo-jumbo. We would like to believe that the "bloodless verdict" is more sensible. Though we can't recall a good advance in the industrial average while rails were declining, there have been some while rails were stalemated. Perhaps their eventual stabilization will suffice in the present instance.

London Trend

One advisory service with a large following holds that there is a bear market on in London and raises the question whether New York might not follow suit, since the two markets in the past usually have moved together. Well, we have some questions too. Must they always move together, regardless of changing circumstances and varying national policies? We don't see why. Second, we question whether the London trend is a bear market. At least the evidence seems rather tentative. There are some signs of second—and more inflationary—thought by British investors. Perhaps some of them begin to remember how bearish, and mistaken, American investors were back in 1934 when they glued their eyes on "reform" and for months overlooked "reflation."

The Figuring Starts

The consensus at Washington is that corporations will have relief from the excess profits tax on 1946 earnings. It is assumed that either EPT will be eliminated or the rate will be cut to about 60%. In coming weeks you will see a rash of tabulations showing what a number of companies would have earned in 1944 under these alternative propositions. This department will herewith be among the first to start the ball rolling. Since very few companies can better 1944 sales next year, the trick is to pick those reasonably assured of gaining substantially more from tax relief than they are likely to lose from lower pre-tax earnings. Here are some, with actual 1944 earnings (first figure) and the earnings (second figure) that would have been shown on a 60% EPT rate: Celanese, $2.87 and $4.35, Columbia Broadcasting, $2.72 and $3.72; W. T. Grant, $3.15 and $5.29; H. L. Green, $4.01 and $5.91; Kimberly-Clark, $3.09 and $4.18; Marshall Field, $1.60 and $3.40; Montgomery Ward, $3.81 and $4.67; J. C. Penney, $6.25 and $9.70; United Drug, $1.62 and $3.28.

Spectacular

Here are some similar samples except that the second figure is what last year's earnings would have been with no EPT: American Chicle $6.50 and $10.42; American Home Products, $5.14

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Caterpillar Tractor	12 mos. July 31	$4.25	$4.45
Stewart-Warner	6 mos. June 30	.68	.89
Allied Mills	Year June 30	1.51	1.92
Omnibus Corp.	6 mos. June 30	.63	.72
Safeway Stores	6 mos. June 30	.74	.88
American Agr. Chemical	Year June 30	2.77	2.90
Chicago Yellow Cab	6 mos. June 30	.60	.73
Monarch Machine Tool	6 mos. June 30	1.32	2.13
Philco	6 mos. June 30	1.20	1.39
Raybestos-Manhattan	6 mos. June 30	1.06	1.40

and $7.25; Bond Stores, $2.06 and $4.39; Bristol-Myers, $3.66 and $7.55; Byron Jackson, $1.78 and $3.84; Federated Department Stores, $3.50 and $8.61; Sears, Roebuck, $5.83 and $10.66; Sutherland Paper, $2.47 and $4.72; Walgreen, $2.25 and $4.44. Mind you, these are not "forecasts" of what these companies might earn in 1946. But they all have far above-average 1946 prospects as regards sales and pre-tax earnings. Therefore, they would gain largely—by precisely how much nobody can predict—from reduction or elimination of EPT.

Tobacco Stocks

Most of the tobacco stocks have recently been in firm investment demand near their highs for the year. The reasons are plain. The cigarette industry has had record sales during the war but "profitless prosperity." At least, share earnings have been considerably less than pre-war. These companies have a double benefit coming from peace: relief from the excess profits tax and relief from the squeeze on operating margins caused by ceiling prices and higher leaf tobacco costs. Tax relief will come first. It is improbable that the price squeeze will continue beyond next June 30, when OPA is due to expire, and possible that the ceiling may be raised a bit before then. On the competitive record, probably the two best companies are American Tobacco and Philip Morris.

Flattering

United Drug stock has advanced over 2 points since it was announced that President Justin Dart had declined an offer to become president of Montgomery Ward and would stick with United. No doubt Mr. Dart feels flattered—both by one Sewell Avery and by the stock market. Of course, the real test of what the Dart management can do comes with peace, for in this business it has been no trick to boost operating margins and earnings under war conditions. However, the pre-war record was so poor that there is an excellent chance for wide improvement. For instance, the margin in the retailing division was under 2% in as good a year as 1937, against over 6% for Walgreen. (Mr. Dart was formerly executive vice-president of Walgreen.) Last year United Drug, now around 20, would have netted over $6 a share on a 40% tax basis, against $1.72 reported. It should not be too difficult to get peacetime earnings, in good years, up to $3.50 to $4 a share.

Electric Auto-Lite

One of the few stocks which recently advanced to a new bull market high, while the "war babies" were falling out of bed, is Electric Auto-Lite. The company is one of the most favorably situated in the motor accessory field. Its reconversion problem is not difficult. Its numerous products — especially ignition systems, batteries and spark plugs—hold a strong trade position. Chrysler is the largest customer, though it serves most other auto makers. It has a huge dealer organization to serve the replacement market. Between restocking these dealers and getting rolling on advance orders from the motor industry, any decline in wartime volume will be both brief and relatively moderate. Earnings this year probably will be around $5 a share, and may exceed $8 for the next several years, assuming a 40% Federal tax. There are rumors the company may regain the lion's share of the Ford business, which it lost back in the 1920's. This could make a radical difference. On reasonably calculated possibilities, the stock is one of the most conservatively priced of the better grade accessory issues.

We See by the Papers

Graham-Paige, one of the most speculative of the automobile stocks, had a sharp rise in recent weeks. Evidently there are at least several of the company's officers who don't think as much of it as the speculating public seems to do. Now we see by the newspapers (SEC reports) that some of these insiders were selling the stock in July. The August reports will be awaited with interest.

Prediction

Westinghouse Electric expects average annual sales of $368 million for the first three years after reconversion, according to Chairman A. W. Robertson. That would be a shade under 1940 volume. What might earnings be on such volume? Assuming a 40% income tax, they could approximate $2.65 a share if the operating margin is 15%, $2.15 a share if the margin is 12%, $1.90 a share if margin is 10%. Obviously, the profit margin will make a big difference, and it is not predictable. The best margins normally are on the "heavy stuff." The consumer appliances will face more intense competition than before. This is a fine company but the stock—with over 12 million shares now out—does not look cheap, around 34, on the range of post-war earnings conjectures heretofore cited.

What's the Use?

What's the use of talking about the "averages" and the "trend"? Some stocks are going up, some standing still, some going down. That makes sense in this period of investment reorientation. Some of the recent new bull market highs include Acme Steel, American Machine & Foundry, Electric Auto-Lite, Evans Products, Philip Morris, Squibb, Standard Steel Spring and U. S. Plywood.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Best & Co.	6 mos. July 31	$ .91	$ .68
Beneficial Industrial Loan	6 mos. June 30	1.03	.94
Jewel Tea	28 wks. July 14	1.05	.88
Creole Peroleum	6 mos. June 30	1.41	1.19
Electrolux	6 mos. June 30	.42	.19
Madison Square Garden	Year May 31	1.64	1.35
Miami Copper	6 mos. June 30	.77	.59
National Enamel & Stamping	6 mos. June 30	5.06	3.86
Penney (J. C.)	6 mos. June 30	2.98	2.81
Mid-Continent Petroleum	6 mos. June 30	1.97	1.79

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

North American Company

I am seeking an investment in a moderate price utility company and North American Company common stock has been suggested to me. What is your opinion of this stock at current market?

—E. W., Brooklyn, N. Y.

Unlike other utility holding companies, its system is based primarily upon companies serving important metropolitan areas namely, St. Louis, Cleveland, Milwaukee and Washington, D. C. The system has a relatively large industrial load, which accounts for practically 40% of its electric gross revenue. Holdings of 33% of Pacific Gas & Electric Co. has accounted for a large portion of total net income in the past. On April 24, the company filed an application with the SEC for authority to sell not in excess of 700,000 shares of its holdings of 1,420,000 shares of Pacific Gas & Electric common stock. On May 23rd, the SEC, charging that competitive conditions were not maintained in sale by company of 700,000 Pacific Gas & Electric Co. common stock to Blyth & Co. and associates, disapproved the bid made for Pacific Gas stock. The underwriters had set a price of $36.767 a share for the stock, the only bid submitted, and had planned to re-offer the stock at $38.25 if the SEC approved.

The company earned $1.69 on its common stock in 1944 as compared with $1.85 in 1943 and $1.72 in 1942. In the pre-war years of 1936 to 1939, inclusive, the lowest amount earned on the common stock was $1.55 in 1938 and the highest was $1.99 in 1939. Consolidated net income for the first quarter of 1945 was $5,091,539, equal after payment of preferred dividends to 48 cents a year ago. For the twelve months ending May 31, 1945, the company showed $1.72 per share.

The company's financial position is sound and as of December 31, 1944, cash and equivalent amounted to approximately $56,500,000 as compared with total current liabilities of approximately $49,200,000. Total current assets amounted to approximately $82,300,000.

The company has paid dividends continuously since 1909 and dividend is now paid in stock of subsidiaries. The company has been paying a quarterly dividend of one share of Pacific Gas & Electric for each 100 shares of common stock held. If the Pacific Gas & Electric stock is liquidated at $42 per share the indicated income yield at current market price is slightly better than 6%, an excellent return for this good utility equity. The liquidating value is estimated around $30 per share. Price range this year has been High 26; Low 19½; Last 25.

Giving a good income yield and selling at a discount from estimated liquidating value of $30 a share, the stock is recommended at current market price for both income and further appreciation. possibilities.

Aireon Manufacturing Corp.

Will you please tell me what products Aireon Manufacturing Corp. plans to produce in the postwar period?

—B. B., Bronx, N. Y.

This company has developed communication equipment for use for aviation, railroads, buses, trucks, taxicabs and for other mobile applications in peace times. Aireon is developing models of commercial phonographs with many new features and experimental hydraulics-power controls and test units have been developed. A Mexican subsidiary has provided test installations for the Mexican National Railway and will also serve as an outlet for the company's products.

In addition Aireon proposes to conduct co-operative engineering and development with engineering staffs of other companies where electronics can be applied effectively to their industrial processes.

Net Profit, after Federal income taxes for the year to April 30, 1945 amounted to $892,261 equivalent to $1.24 a share compared with $1.49 a share in the corresponding period of the previous year.

United Gas Improvement Co.

Will you please inform me as to the present status of United Gas Improvement Company under the Public Utility Act?

—I. G., Bayonne, N. J.

The Chairman of the executive committee of this company recently told shareholders it was the intention of the Board of Directors to continue to hold and operate utility companies as in the past and develop utility systems to the extent permitted under the Holding Company Law. During the past two years the company

(Please turn to page 626)

Keeping Abreast of Industrial and Company Changes

Encouraging to all hands in the current transitional emergency are sound expectations of rapid recovery, industrial expansion and stabilization of employment at above prewar levels, given a little time.

Bright prospects for the building industry are assured by major easing of lumber controls, effective September 30, breaking the bottleneck for vast construction activities of every kind.

This spells jobs for some 1,840,000 workers during the first twelve months following VJ day, according to the Monthly Labor Review, and includes only labor on the site. Better yet, a progressive rise to 2,840,000 during three or four years is predicted.

Bolstering these potentials are estimates of WPB that 1946 volume of construction will reach $1 billion, while F. W. Dodge Corporation raises the ante with an authoritative guess of $1.3 billion.

Revised estimates by the Edison Electric Institute forecast capital expenditures by the nation's electric utilities in the next few years at $15 billion.

$8 million will be spent by Standard Oil Co. (N.J.) to construct two research centers at Linden, N. J. and Baton Rouge, La., to be the most extensive of their kind in the world. The development of atomic energy and petroleum chemistry will highlight operations of the two laboratories.

Although present capacity of E. I. du Pont de Nemours & Co. to produce nylon yarn is far above prewar and is sufficient to provide eleven pairs of hosiery for every woman in America, the company plans to spend $10 million for additional facilities at Martinsville, Va.

This will benefit the textile industry, all set to produce new forms of nylon fabrics as a result of wartime experience, for which they will require yarn much in excess of prewar figures.

Postwar sights of Nash-Kelvinator Corp. are raised high. Prewar car production of 89,000 units annually is to be raised to 250,000, and their output from the Kelvinator and Leonard division doubled.

Near-term potentials for the Radio Industry are especially promising, and first civilian sets produced since the outbreak of war have already appeared. Optimists predict that by spring, employment in this industry will exceed even wartime peaks.

With a backlog of $60 million in civilian orders already piled up, Zenith Radio Corporation expects to build a new plant as soon as materials are available.

Another sizeable backlog of orders, and not surprising at that, is reported spurring operations of Pullman Standard Car Co. Over $70 million orders for new railroad equipment will keep it busy.

Claims to championship in rapid reconversion are made by the Morrison-Drabner Steel Co., Cincinnati, Ohio. Just ten minutes were required to reset the company's huge steel shearing machines for civilian production. That was all of the company's reconversion.

By no means behind in the race for expansion and improvements is the Food Industry. This group plans to spend $600 million next year for these purposes, provide jobs for all its returning veterans and employ 200,000 additional workers.

Just prior to VJ-Day, the machine tool industry was sitting rather pretty, with unrated orders for $106 million of its products on the books. No need to worry much if cancellations cut into an additional $140 million of rated orders.

Aggressive Reynolds Metals Co. has offered to lease, with option to purchase, several Government-owned aluminum plants in the Northwest, Middle West and South.

Washington reports that negotiations are in progress with the new Kaiser-Frazer Motor Corporation to take over the Government's prize headache, the huge Willow Run plant in Detroit.

Among recent disposals of Government-owned Detroit property is the sale to Micromatic Hone Corporation of a DPC plant operated by it since 1942, at a price of $550,000.

Sherwin Williams Co. is reported to have developed a new paint using DDT, the war-born insecticide. Claim is that room walls will now prove fatal to flies and mosquitoes.

Cancellation of $59 million Army contracts for December delivery of shoes does not disturb the shoe manufacturers. It merely means a larger supply for long waiting civilians.

The enthusiastic Automobile Council for War Production in predicting that by late spring, employment in this industry will be 35% above prewar, goes a step further in viewing the long range perspective.

Within four years time, says this spokesman for the automotive industry, revolutionary improvement in roads and parking is likely to prolong the boom for cars indefinitely.

Termination of 210 wartime curbs, reports the Pipe Fabrication Institute, will push volume of the steel pipe industry up to 20% above 1939, pointing to annual sales of $30 million compared with a wartime peak of $42 million.

Preparing for vast expansion of civilian travel by air, twelve leaders in the air transport industry have signed leases at the nearly completed Idlewild Airport on Long Island to bolster annual revenues of the airport up $4,350,000.

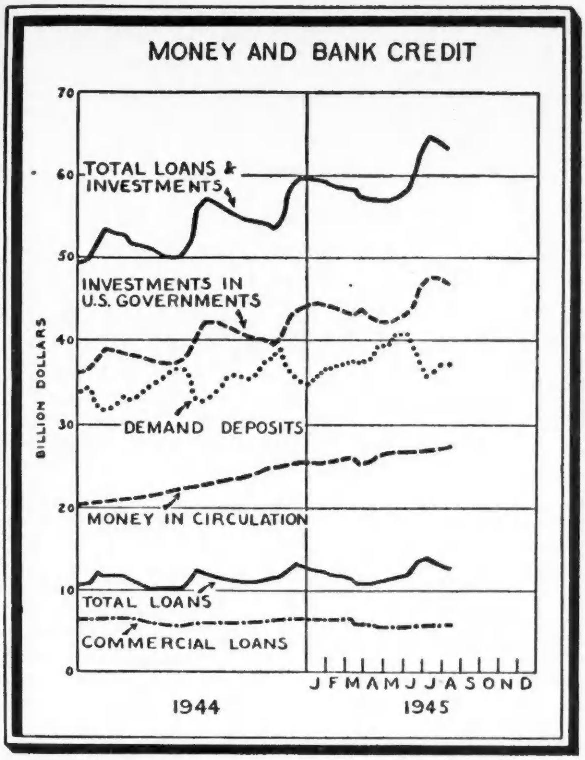
Atlas Corporation has purchased Liberty Magazine from Paul Hunter, its publisher, for a sum reported to be $2 million.

A. O. Smith Corporation plans extensive expansion in Milwaukee and St. Paul, at a cost of about $1.8 million for new facilities.

First postwar product to be announced by B. F. Goodrich Chemical Co. is "Kriston", a plastic which can be used for lenses and prisms, as well as for many industrial purposes requiring imperviousness to corrosive action.

A new fabric which resembles wool has been developed by United States Rubber Co. and is made chiefly from chicken feathers. Thus may be utilized some 100 million pounds annually of this now wasted byproduct of the poultry industry.

Merely by adding to rinse water a wax emulsion developed by Socony-Vacuum Oil Co. and already used by the military during the war years, the housewife can now waterproof the laundry, thereby saving herself many a trip to the cleaner, quite apart from saving considerable on household expenses.



SUMMARY

MONEY AND CREDIT — Treasury plans Victory Loan for October. July dividends 6% under last year, leaving an increase of 1.3% for three months ended July.

TRADE — Accumulated savings plus liberal unemployment and discharge pay will sustain retail sales during reconversion interlude.

INDUSTRY — Business recession and unemployment during reconversion will be less severe and of shorter duration than alarmists predict. Within less than a year we shall be well along the road toward an era of unprecedented prosperity. Biggest shortage will be in skilled workers.

COMMODITIES—Spot markets steady but futures reactionary under fear that parity, and hence Government support, prices may recede under lower wage rates and farming costs.

The Business Analyst

Business Activity has receded about 1½% during the past fortnight to a level nearly 2% below last year at this time. Most of this was due to a sharp decline in steel operations resulting from labor trouble at a major steel plant and closing down of other mills for reconversion.

* *

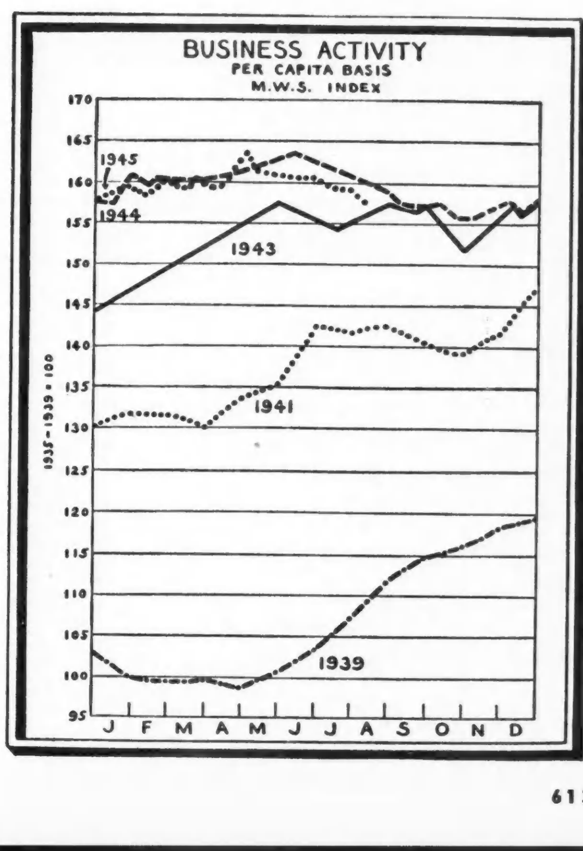
Widespread cancellation of war contracts will be reflected by sharp recessions in the business indexes over the next few weeks or months; but the recession will be neither so long nor so severe as alarmists are predicting. Within less than a year we shall be well along the road toward the **Greatest Business Boom in History.**

* *

During the earlier stages of reconversion and demobilization there is bound to be a sharp, but not protracted, dip in employment and operating profits among industries that were engaged in war work exclusively up to V-J day; but there is nothing in this to get panicky about. On a somewhat larger scale, the situation will be similar to what we had become accustomed to every year in pre-war days when automobile plants closed down for a few months to retool for new models.

* *

Meanwhile consumer purchasing power, and hence **Retail Sales,** will be well sustained by
(Please turn to the following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Aug. 15	1.47	1.55	1.48	0.43
Cumulative from Mid-1940	Aug. 15	300.9	199.4	210.9	14.3
FEDERAL GROSS DEBT—$b	Aug. 15	262.6	262.2	209.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Aug. 15	37.4	37.1	33.9	24.3
Currency in Circulation	Aug. 15	27.4	27.3	23.0	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Aug. 15	7.00	7.20	5.76	3.92
100 Other Cities—$b	Aug. 15	8.11	8.26	7.73	5.57
INCOME PAYMENTS—$b (cd)	June	14.34	12.83	13.57	8.11
Salaries & Wages (cd)	June	9.54	9.52	9.34	5.56
Interest & Dividends (cd)	June	1.85	0.50	1.55	0.55
Farm Marketing Income (ag)	June	1.53	1.45	1.50	1.21
Includ'g Govt. Payments (ag)	June	1.55	1.53	1.56	1.28
CIVILIAN EMPLOYMENT (cb)m	June	52.0	51.3	53.2	50.4
Agricultural Employment (cb)	June	9.1	8.0	9.6	7.7
Employees, Manufacturing (lb)	June	14.6	14.8	16.1	13.6
Employees, Government (lb)	June	6.0	6.0	5.9	4.5
UNEMPLOYMENT (cb) m	June	1.1	0.7	1.0	3.4
FACTORY EMPLOYMENT (lb4)	June	149	151	166	147
Durable Goods	June	195	201	228	175
Non-Durable Goods	June	113	112	117	123
FACTORY PAYROLLS (lb4)	May	303	317	334	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	May	44.1	45.1	45.3	40.3
Hourly Wage (cents)	May	104.3	104.4	101.7	78.1
Weekly Wage ($)	May	46.03	47.12	46.02	31.79
PRICES—Wholesale (lb2)	Aug. 11	105.7	105.7	104.0	92.2
Retail (cdlb)	June	142.1	140.9	137.5	116.1
COST OF LIVING (lb3)	June	129.0	128.1	125.4	110.2
Food	June	141.1	138.8	135.7	113.1
Clothing	June	145.4	144.6	138.0	113.8
Rent	June	108.3	108.3	108.1	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	June	6.04	5.88	5.71	4.72
Durable Goods	June	0.90	0.87	0.89	1.14
Non-Durable Goods	June	5.14	5.01	4.82	3.58
Dep't Store Sales (mrb)	June	0.53	0.52	0.44	0.40
Retail Sales Credit, End Mo. (rb2)	June	2.27	2.20	2.08	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	June	293	293	301	212
Durable Goods	June	414	435	445	265
Non-Durable Goods	June	215	203	208	178
Shipments (cd3)—Total	June	268	269	273	183
Durable Goods	June	355	361	383	220
Non-Durable Goods	June	208	205	196	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	June	26.6	27.0	27.6	26.7
Manufacturers'	June	16.2	16.2	17.2	15.2
Wholesalers'	June	3.8	3.9	4.1	4.6
Retailers'	June	6.6	6.9	6.3	7.2
Dept. Store Stocks (rb)—I	June	160	165	157	139

PRESENT POSITION AND OUTLOOK

(Continued from page 613)

accumulated savings and by liberal unemployment, severance and discharge pay. In the week ended Aug. 11, department store sales were 18% ahead of the like period last year, compared with gains of 17% for four weeks and 13% for the year to date.

* * *

Military Cutbacks, amounting to $24 billion a year for the Army and $10 billion for Navy, mean a big saving in Government expenditures; but turn out to be something of dud as a business depressant when one notes that the entire cut in military procurement amounts to only 17% of the national gross product. Among individual industries, however, the effects of these cutbacks will vary widely. Aircraft makers, with 94% cancellations, will be hit hardest; but most of them are in strong financial condition and several will develop sizeable earning power in the years of peace that lie ahead.

* * *

Steel output might drop to as low as 60% of capacity within the next few weeks—not from lack of orders, for civilian demand is at record levels, but due to the necessity of changing over to produce civilian rather than war products—sheets particularly, instead of plates. Last week, mills in the Pittsburgh district, for example, started at only 43% of capacity.

* * *

President Tower of the American Iron and Steel Institute, says: "There will be no extended delay in production nor sharp loss in employment because of the necessity for **Reconverting the Mills** from war to peacetime production."

* * *

Utility executives expect **Electric Power Output** to recede 20% to 25% within the next two months; but predict that sales of electric power in the ensuing five years will rise to 160 billion kilowatt-hours—50% above the pre-war peak year, 1939.

* * *

Post-war outlook for the **Railroads** is by no means so gloomy as the recent market slump in their securities might imply. There will be some decline in gross income, particularly during the reconversion period; but the effect of this upon net income will be cushioned by a more than proportionate drop in excess profits taxes and by large savings in fixed charges resulting from heavy retirement of funded debt during the war.

* * *

Western Railroads think that traffic, both passenger and freight, will continue at nearly peak

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Aug. 11	157.3	158.5	160.3	141.8
(M. W. S.)—I—np	Aug. 11	189.5	170.8	171.0	146.5
INDUSTRIAL PROD. (rb)—I—np	June	222	226	235	174
Mining	June	145	138	142	133
Durable Goods, Mfr.	June	313	326	354	215
Non-Durable Goods, Mfr.	June	173	173	169	141
CARLOADINGS—t—Total	Aug. 11	870	864	895	833
Manufactures & Miscellaneous	Aug. 11	382	383	398	379
Mdse. L. C. L.	Aug. 11	107	104	107	156
Grain	Aug. 11	63	64	51	43
ELEC. POWER Output (K.w.H.)m	Aug. 11	4,396	4,432	4,415	3,269
SOFT COAL, Prod. (st) m	Aug. 11	11.5	11.3	12.1	10.8
Cumulative from Jan. 1	Aug. 11	363	352	389	446
Stocks, End Mo.	June	47.7	44.0	59.7	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Aug. 11	4.9	4.9	4.7	4.1
Gasoline Stocks	Aug. 11	86.3	84.8	79.7	87.8
Fuel Oil Stocks	Aug. 11	42.9	42.8	57.2	94.1
Heating Oil Stocks	Aug. 11	37.0	36.7	39.4	54.8
LUMBER, Prod. (bd. ft.) m	Aug. 11	504	504	645	632
Stocks, End. Mo. (bd. ft.) b	July	3.1	3.1	3.1	12.6
STEEL INGOT PROD. (st.) m	July	9.0	6.84	7.50	6.96
Cumulative from Jan. 1	July	50.2	43.2	52.6	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Aug. 16	49.1	30.2	42.3	93.5
Cumulative from Jan. 1	Aug. 16	1,203	1,154	1,164	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Aug. 11	158	223	140	165
Anthracite Coal Prod. (st)m	June	5.6	2.1	5.6	3.8
Portland Cement Prod. (bbls.)m	June	8.9	8.1	7.9	14.9
Hosiery Production (pairs)m	May	180	165	185	150
Footwear Production (pairs)m	May	43.7	41.5	40.0	34.8
Hide & Lthr. Stks., End Mo. (hds.)m	May	11.9	11.9	10.8	14.0

PRESENT POSITION AND OUTLOOK

(Continued from page 614)

levels for several years at least. They point out that "fighting material" (ammunition and guns), which currently constitutes only 10% to 15% of freight moving on western roads, is the only thing that will come to an abrupt halt.

* * *

The Army expects **Demobilization** of 5,000,000 within 12 months, and the Navy may release 2,000,000 wihin t12 to 18 months. Inductions will drop to 50,000 a month, from the present 80,000. Thus net releases from the Armed Forces during the next 4 months should approximate 1.8 million. The WMP estimates that within the same period, 6,900,000 will be released from civilian war work, making a total of 8,700,000.

* * *

The WMC also estimates that around 3,800,000 will shift over to civilian employment during the next 4 months. Our own guess is that about 20% of the 8,700,000, say 1,700,000 will not seek employment this year. If these "guesstimates" prove approximately correct, **Unemployment** should not exceed 3,200,000 by Christmas, a figure which is little over a million in excess of usual unemployment (the so-called "float") in years of prosperity, and a far cry from the six to ten millions mentioned in alarmist propaganda.

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

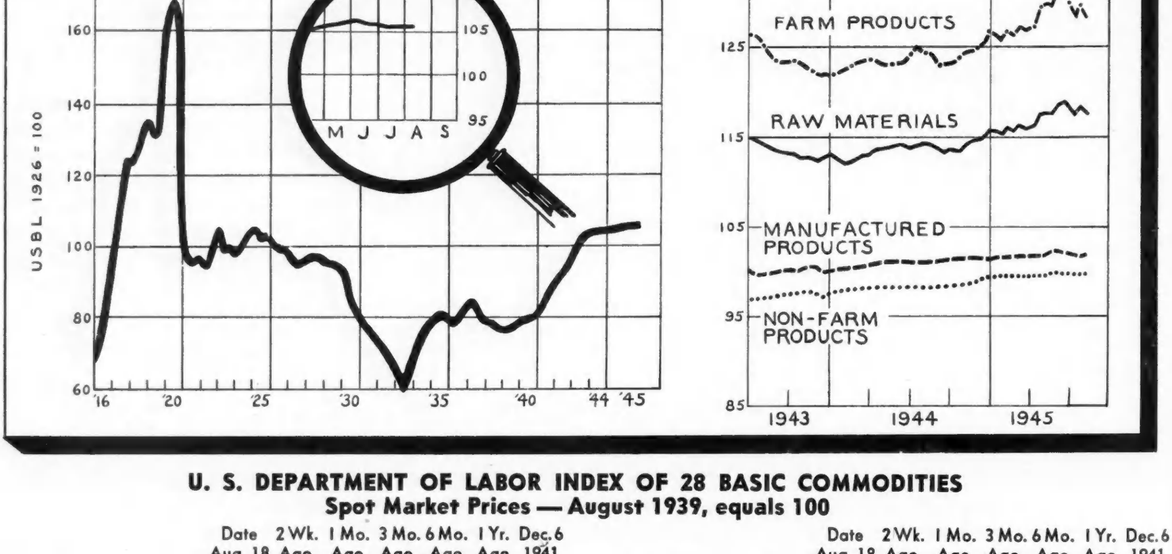
No. of Issues (1925 Close—100)	1945 Indexes High	Low	Aug. 11	Aug. 18
290 COMBINED AVERAGE	132.9	105.0	126.9	125.0
4 Agricultural Implements	197.4	160.5	181.5	182.5
10 Aircraft (1927 Cl.—100)	213.6	156.0	182.4	170.8
6 Air Lines (1934 Cl.—100)	877.5	559.6	788.8	771.0
5 Amusement	92.3	78.9	88.8	87.1
13 Automobile Accessories	235.3	178.2	225.2	224.8
12 Automobiles	47.0	33.8	46.9	46.5
3 Baking (1926 Cl.—100)	16.6	14.3	15.8	15.4
3 Business Machines	263.5	221.3	244.3	253.2
2 Bus Lines (1926 Cl.—100)	160.8	189.2	140.3	138.6
4 Chemicals	207.7	189.2	202.0	201.3
4 Communication	87.0	73.5	82.5	80.8
13 Construction	53.1	42.3	51.5	52.6
7 Containers	328.5	276.5	310.5	315.4
8 Copper and Brass	84.5	74.8	77.0	75.1
2 Dairy Products	57.8	47.6	56.2	57.0
5 Department Stores	54.0	39.8	52.7	52.8
5 Drugs and Toilet Articles	157.2	117.6	141.9	146.6
2 Finance Companies	267.5	222.1	253.9	267.5E
7 Food Brands	163.0	134.5	158.0	160.3
2 Food Stores	67.6	56.1	62.4	62.4
4 Furniture	98.0	81.6	90.2	90.9
3 Gold Mining	1158.0	938.3	1060.3	1054.7

(Nov. 14, 1936, Cl.—100)	High	Low	Aug. 11	Aug. 18
100 HIGH PRICED STOCKS	86.31	73.59	83.08	82.53
100 LOW PRICED STOCKS	156.15	112.22	148.72	145.97
6 Investment Trusts	54.8	44.7	50.7	50.1
3 Liquor (1927 Cl.—100)	562.5	391.0	521.0	513.1
8 Machinery	174.5	137.5	167.7	167.0
2 Mail Order	120.8	96.7	118.3	117.5
3 Meat Packing	95.1	68.6	88.3	86.2
11 Metals, non-Ferrous	180.3	149.0	175.9	172.1
3 Paper	23.9	18.9	22.8	22.9
22 Petroleum	167.1	142.5	149.5	147.1
19 Public Utilities	94.0	55.4	91.7	90.1
5 Radio (1927 Cl.—100)	32.4	27.5	29.8	30.9
7 Railroad Equipment	83.3	68.9	81.6	80.1
21 Railroads	37.5	22.8	31.5	29.0
2 Shipbuilding	115.6	89.9	96.0	89.9a
3 Soft Drinks	443.6	394.8	429.3	423.2
12 Steel and Iron	100.6	82.8	97.2	94.1
3 Sugar	68.0	55.2	64.1	63.2
2 Sulphur	212.4	173.5	200.9	199.2
3 Textiles	102.4	58.5	90.4	88.1
3 Tires and Rubber	38.3	33.9	36.5	37.2
5 Tobacco	79.0	67.5	77.1	78.0
2 Variety Stores	287.4	255.6	267.9	274.1
21 Unclassified (1944 Cl.—100)	126.1	100.0	118.2	116.6

E—New HIGH since 1940. a—New LOW this year.

Trend of Commodities

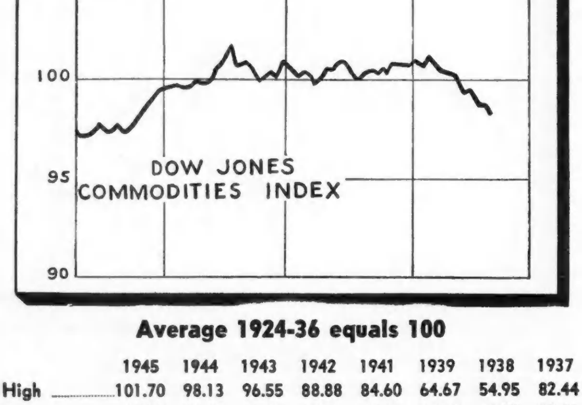
Ending of the Pacific war has brought sharp recessions in commodity futures since our last issue, though Government support and skimpy carryovers from last year's crops are steadying spot prices until the new crops move to market more freely. The Emergency Price Control Act provides for Government loans on wheat, corn, cotton, rice, tobacco, hogs, poultry, eggs, dairy products (except fluid milk), oil-bearing crops, potatoes, dry beans and peas, during the war and for a two-year period beginning with the first day of January immediately following the date upon which the President by proclamation, or the Congress by concurrent resolution, declares that hostilities have terminated. This means at least until Jan. 1, 1948. If the law is not repealed or modified this suggests that the Government will be obliged sooner or later to acquire large quantities of farm products in order to support prices at 90% of parity or else revert to production restriction tactics of the early 1930s. In either event the effect of maintaining artificially high prices might well be to subsidize foreign competitors of the American farmer and so confine his sales to the domestic market. Shortages of food and feedstuffs abroad at the present time, however, are probably large enough to absorb most of the surpluses from this year's prospectively abundant harvests. Recent weakness in futures has been in response to conjectures that parity, and hence Government support prices, may be lowered in consequence of a possible future recession in wage rates and prices paid by farmers upon which the parity formula is based.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

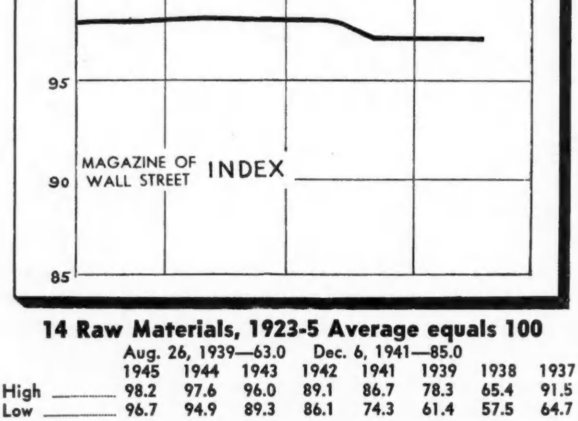
	Date Aug. 18	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	184.2	183.6	183.5	183.6	183.3	182.6	156.9
11 Import Commodities	168.9	168.9	168.9	169.0	169.0	168.6	157.5
71 Domestic Commodities	194.8	193.8	193.7	193.6	193.2	192.3	156.6

	Date Aug. 18	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	225.0	227.0	226.6	227.4	224.8	223.7	163.9
12 Foodstuffs	208.1	209.0	208.7	209.1	208.4	207.5	169.2
16 Raw Industrials	167.9	166.5	166.5	166.3	166.4	165.7	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	101.70	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.2	97.6	96.0	89.1	86.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

The Competitive Scramble as Auto Production Starts

(*Continued from page* 599)

While General Motors and Chrysler have huge problems of reconversion, both stand to gain from that portion of their facilities producing trucks in wartime, for from these productive sources civilian output can pour forth with little delay, and the latent demand is tremendous. These two leaders will compete heavily to regain their postwar markets which brought to General Motors 40% of all truck business and to Chrysler about 11%, as it is believed that postwar years will see a demand for at least 2.5 million of these vehicles, competition will be keen. All of the "big three" have the edge on some of their smaller competitors by reason of almost complete wartime retention of dealer outlets, experienced in both selling and servicing; how fully dealer systems were retained is illustrated by the refusal of Chevrolet to grant any of some 10,000 requests for new agencies.

Lined up for a share of the inviting markets are the independent concerns such as Packard, Willys Overland, Graham-Paige, Nash-Kelvinator, Hudson and Studebaker, the financial status of all tremendously improved by wartime earnings, refunding operations and in some cases by new banking connections. Now that the green light has been given, all are feverishly girding themselves for the competitive battle about to unfold. Studebaker has the drop on the others through its ready production of trucks. Willys-Overland slides from war to peace with a modified version of its military jeep particularly adapted to agricultural use and boldly threatens to challenge Ford with a car priced at 20% under the regular series. Nash-Kelvinator has an advantage in its diversified output of cars and refrigerators. Packard, though best known for its quality car with above average profit margins, will probably further exploit the medium-priced automobile field to which it has been turning already before the war.

But in the already highly competitive arena are appearing a number of new concerns, usually backed by substantial capital and certain for a while at least to capture a share of the presently top-heavy demand. Typical of this group is the new Kaiser-Frazer lineup (Mr. Frazer is president of Graham-Paige), with a "Kaiser" car to be produced in California and a similar "Frazer" car in the East. Experimental operations by this new contender in a plant operated by Henry J. Kaiser at Bristol, Pa. are reported as being in an advanced stage.

The almost desperate condition of passenger buses throughout the country points to a pressing demand which has not been overlooked by Aviation Corporation; its Consolidated Vultee subsidiary has already lined up some orders, possibly suggesting that this aggressive group may broaden its activities in the automotive field as time goes on. And mystery of mysteries surrounds the yet unrevealed plans of the wealthy and experienced Fisher Brothers who not long ago left General Motors to paddle their own boat. In view of their background and ample resources, their re-entry into the automotive field would be a major event.

All considered, plenty of profitable business appears to be in sight for every maker of automobiles for the next few years, granted the predicted boom comes up to expectation as it most likely will. Question is how much permanent headway can the independents and newcomers make in biting into markets here and abroad formerly so predominantly in the hands of the "big three". Some of the more strongly established independents like Packard, Studebaker and Nash are likely to enjoy a certain degree of of growth compared with prewar which they may be able to retain, but they have a long way to go before they win enough volume to compete on a cost basis with their big competitors. When prices start to slip or volume shrinks, net of the smaller concerns can fade fast while for the dominant factors in the industry satisfactory earnings still remain the rule. Financial ability of the big concerns to carry on extensive promotional activities and to diversify production tends somewhat to stabilize their volume although along with industry in general, the automobile makers are acutely sensitive to cyclical swings.

Dependence upon outside sources for parts and accessories has become an established practice and many such concerns have grown to become substantial fac-

Auto Production Starts

(*Continued from page* 617)

tors in the field. Long experience with the volatile aspects of the automobile industry has induced most parts makers to diversify broadly; those who didn't usually didn't fare very well. The trend now is toward further diversification in the postwar-despite prospective excellent parts business. This aims not only at further stabilizing long-range earning power but to take advantage of the promising market potentials especially in the durable goods field.

Except for the body builders, reconversion will be a relatively minor problem with most makers of automotive parts and accessories, and demand prospects should be excellent for at least several years. In proportion to capital invested, wartime earnings gains as a rule have been far more substantial than those of their big customers; resultant heavy EPT payments provide an excellent tax cushion during reconversion.

Prices of motor shares normally follow rather closely the pattern of the general market though some have been tending to outrun the market average. It would be logical to expect a certain amount of irregularity during the transitional period but also a marked revival once production is achieving real volume, with attendant prospects of high earnings and possible dividend boosts.

On the whole, automotive prospects have been generously discounted by recent high prices but this should not preclude further appreciation as postwar potentials begin to unfold, especially in the case of well-entrenched concerns such as General Motors, Chrysler, and some of the better situated independents such as Studebaker, Nash-Kelvinator and Hudson. Packard marketwise suffers from a large common stock capitalization. Stocks of the smaller independents, facing a relatively greater problem of consumer acceptance, are correspondingly more speculative.

What with attractive possibilities in the automotive parts and accessories group, a good many issues can be favorably regarded for their post-reconversion potentials. Those which we think have above average merit are especially marked on the appended table.

For Sale: $100 Billion Worth of Surplus Property

(*Continued from page* 587)

plants costing $1 million or more must be examined by the Justice Department for possible antitrust violations and Congress itself is turning a stern eye on really big disposal jobs, more specifically on all those exceeding $5 million in cost value. Regional interests, no less, can be depended upon to scrutinize closely any deals that will be made.

In this respect, particular interest attaches to the disposal of about $5 billion worth of huge aluminum, magnesium, synthetic rubber, steel plants and the like. All these present a series of special problems that will have to be tackled on an industry by industry basis, and in line with fundamental Government policies affecting the respective industries. Another one-third of the $16 billion stake in plants is concentrated in shipyards and ammunition plants and there is almost no possibility of converting them to anything else though efforts will undoubtedly be made. The remaining third, however, may be convertible fairly quickly to civilian uses.

On the whole, it is estimated that about $9 billion of the Government's investment in industrial facilities can be put to peacetime use but such questions as location, unadaptability and other factors likely to deter sales may reduce the disposable plants to about $6 billion of which half will require conversion for peacetime use. Even so, this will comprise a substantial addition to the nation's normal production capacity.

Just now, the Reconstruction Finance Corporation, as principal disposal agency assuming the role of the country's biggest real estate broker, has launched one of history's most enthusiastic sales campaigns. It is ready to sell private industrial firms whatever it can in the way of surplus plants and equipment, or lease them on a longterm basis. So far at least a dozen transactions of this kind have already been completed, most of them unpublicized. The most impressive to date was the leasing for five years of a $21 million Philadelphia munitions plant to Edward G. Budd Manufacturing Co. for production of streamlined railway cars. Negotiations for the sale or lease of 350 other properties, varying from small plant sites to huge factories, are reported in progress.

Interestingly, in going about plant disposal, the RFC is viewing it as a community problem and tries to encourage such an approach on the part of communities. Many cities and towns with Government-owned facilities voluntarily make efforts to find customers for factories and equipment, and channel them into regional disposal centers. The RFC would like to see more of this; it also offers easy financial terms to facilitate the movement of surplus plants into peacetime production. Generally, the agency views the leasing of plants for postwar use only as a preliminary to eventual sale. No hard and fast rule is made on the latter score, however. Special considerations are likely in respect to certain types of facilities such as synthetic rubber, aluminum or magnesium plants where at least stand-by arrangements might have to be made to keep them available in time of emergency. Ultimate policy in regard to such "controversial" industries may be up to Congress.

What to do with all these plants is a tremendous problem and as one of our contemporaries puts it, there is enough drama in it for a dozen "supercolossal" movies. Involved is the future of light metals and synthetic rubber, for instance, and the promise of a postwar industrial development outdistancing anything America has ever known. Involved are also important regional considerations and policy decisions of the highest order that may have an enormous bearing on the country's future economic development.

As to surpluses-apart from domestic industrial plants—not all of these are expected to be absorbed in the domestic economy. At least half of the military surpluses are probably in Europe and the Far East and much of this will find disposal abroad. In fact foreign markets are expected to absorb several billion dollars worth of surpluses now located in this country.

Oversea surplus disposal is a gigantic and vastly important job and before long, such operations will be global in scope embracing as many as four million individual items. In determining disposal policies and procedures, a number

of basic guide lines will be followed. They are: (1) Obtaining the most advantageous return for the American tax payer. (2) Making no sale which might endanger the future world peace. (3) Seeing that supplies sold abroad are not dumped on our domestic market. (4) Aid to our export markets by stimulating demand for more American goods.

How far it will be possible to put all these policies into practice remains to be seen; the principles enumerated must be viewed as flexible rather than rigid and probably will so be applied, taking proper cognizance of economic conditions in the countries where surpluses are located.

From the broad economic viewpoint, surplus disposal—now that the war has suddenly come to an end—is something in the nature of a race against time. Yet in spite of a cumbersome disposal law and a rather inauspicious start, we should be able to look forward to the evolvement of a workable program. If so, even though surpluses in a good many lines may be staggering, there is reason to hope that the saleable aggregate can be absorbed into our economy in a businesslike manner and without unduly unsettling the reviving peacetime production.

To the ordinary businessman, surpluses can mean both, an opportunity and a danger. The danger is that the sale of surpluses may wreck or undermine his market, or favor his competitors at his expense. The opportunity is the chance to purchase surpluses and find a profitable use for them. It is quite certain that many will take advantage of it.

It is in the nature of things that when it comes to surplus disposal on the gigantic scale indicated, there cannot always be smooth sailing. Markets temporarily may be overburdened in some items but on the whole, controlled sales are expected to minimize the danger of "glutting."

To the individual manufacturer or dealer, it is not so much the aggregate that counts but the surplus in his particular line. This is where potential trouble may arise. While the total of available surpluses will hardly exceed a manageable size, certainly not the domestic surplus, stocks of some commodities may equal years of ordinary production. Throwing them on the market without setting quotas or price floors could easily have most adverse effects on regular suppliers or the productive system of entire industries. But it's here where we shall heed the lesson of past experience. If the official policies work, business can expect orderly liquidation of surpluses at reasonable prices through regular channels of distribution.

The Surplus Property Act instructs disposal authorities to protect markets and price structures, to preserve established patterns of distribution and to avoid strengthening monopoly. Detailed plans now being drafted to speed disposal have all these aims in view; whether they can be achieved at all times is of course another question. Sometimes things bog down, despite good intentions.

Survey of Corporate Financial Resources

(*Continued from page* 586)

in holdings of U.S. Government securities from $2.2 billion to $20.8 billion. As against the latter, Federal income tax liabilities rose from $1.2 billion to $16 billion, the total thus being amply covered by securities holdings.

Until the end of 1941, the increase in corporate working capital was largely in the form of inventories and since our entry into the war, inventories remained relatively constant until the fall of 1944 though undergoing drastic changes in composition. Thereafter, with the peak of the war effort passed, inventories began to decline while cash assets continued their gain, chiefly in form of increased securities holdings. A reversal of this trend is now in the offing as industry begins restocking inventories for peacetime production. However, war inventories, too, will drop and for a time, the two influences may offset each other.

1945 interim balance sheets for the most part reflect further strengthening of financial resources, adding to previous wartime gains, and the accompanying table listing comparative balance sheet data of a number of companies shows the very respectable progress made in this direction. In the majority of instances, both total assets and net working capital rose materially and deviations from this general rule were due to special circumstances such as self-financed plant expansion where working capital declined. Relatively biggest percentage gains however occurred in cash items. Those of Borg Warner, Container Corporation, Devoe & Raynolds, National Lead and Warner Bros. rose 200% or more, those of National Cash Register 300%, of White Motor 500%, of Dow Chemical and Master Electric 900% since 1941. The tabulated examples have been chosen at random; they have not been selected to prove a point. Numerous others could be mentioned revealing a similar showing though on the other hand, there are a good many companies where financial liquidity is less marked. On the whole, however, improvement has been general and substantial, and has continued during the first half of this year.

In the case of General Motors, for instance, net working capital during the first six months of 1945 rose some $27 million to over $930 million. The gain during the year ended June 30 was about $78 million, and the increase since 1941 comes to fully $430 million. Cash and securities holdings during the first half year declined somewhat but the current ratio rose slightly. Almost 80% of total current liabilities are covered by cash and U.S. Government securities alone, an excellent showing of liquidity.

Net working capital of Chrysler between the end of 1941 and March 1945 rose some $72 million to nearly $200 million. The current ratio during the period declined markedly; still at the end of the first quarter of this year, cash and securities holdings were more than half of total current liabilities. Reserves during the period increased $37 million.

DuPont, another industrial giant, managed to boost net working capital since 1941 by $97 million; at the end of the first

half of this year, the item totalled over $247 million and cash holdings of $172 million were almost three times the amount of current liabilities of $63 million. During the period, the current ratio rose from 1.9 to 4.8, an unusual wartime showing since current ratios generally showed a contracting trend. During the year ending June 30 alone, net working capital rose by some $33 million and cash holdings by about $12 million. Current assets gained $6 million while current liabilities dropped $27.6 million.

By way of contrast, the balance sheet exhibit of U.S. Rubber shows a totally different trend, reflecting chiefly the strain of financing a huge wartime volume and considerable expansion of manufacturing facilities. Compared with the end of 1941, net working capital remained virtually stationary, showing a slight drop. For the year ending June 30, 1945, it declined from $101 million to $87.8 million. During the latter period, current assets gained some $30 million but current liabilities more than doubled to $85.8 million with tax liabilities chiefly responsible for the increase. Net property account during the year rose $13 million. The company's wartime improvement thus finds reflection not so much in increased working capital or greater liquidity but in the rise in total assets which include tax refunds of some $7.4 million (a contingent current asset) and a well amortized plant account representing considerably expanded and modern productive facilities constituting a basis for excellent postwar earning power.

Opportunities for Income and Appreciation

(*Continued from page* 607)

issuance of 100,000 shares of new $100 par value 4½% cumulative preferred stock. The new stock was authorized to retire on terms not yet announced, the presently outstanding 20,000 shares of 6% and 65,505 shares of 7% cumulative preferred stock and to provide additional working capital.

ELECTRIC AUTO LITE CO.: Holders of this company's 2¼% debentures due 1950 are being notified that $2,000,000 have been drawn by lot for redemption on September 5, 1945, at 102, plus accrued interest to date of redemption. On and after the redemption date, interest on the debentures will cease to accrue.

GENERAL MILLS INC.: This company has filed a registration statement with the Securities & Exchange Commission for an issue of 100,000 shares of convertible preferred stock, $100 par value. The company proposes to issue to common stockholders of record at the close of business September 7, 1945, warrants to subscribe at the rate of one share of the new convertible preferred stock for each twenty shares of common stock held after giving effect to the three-for-one split up of common stock recently approved by stockholders. Warrants will expire at 3 P.M. on September 19th. After giving effect to the proposed financing and to the proposed common stock split-up of three shares for one, the company will have outstanding $9,900,000 of 2¼% debentures due 1954, 221,473 shares of 5% preferred stock, 100,000 shares of convertible preferred stock and 1,995,162 shares of common stock.

Analysis of Recent Security Group Movements

(*Continued from page* 580)

here. However, there is a sufficiently striking demonstration of selectivity in the accompanying tables of stock-group performance during two recent periods.

Up to this writing our composite price index, made up of 290 stocks, has not broken the reaction low made in the week ended July 28, and the same is true of the Dow-Jones industrial average. Partly for that reason, but also because peace became first an imminent expectation and then a fact subsequent to July 28, we have taken prices as of that date as the main reference point in preparing the tables.

The first table shows the percentage decline, for each important group, from its year's high to the closing level of July 28, arranged in orde rof magnitude of decline, rather than in our usual alphabetical sequence. At a glance you can see that, over the period covered, you would have fared over five times worse in air lines or rails than in tobacco stocks. The second table shows the percentage changes, also in order of magnitude, from July 28 through the week ended August 18, which is the latest period for which it has been possible to assemble and correlate the statistical data in getting this issue to press. Over this brief period, to cite the extreme, one would have gained 11.8% on the two stocks making up the finance company group and lost 12.1% on the two issues constituting the shipbuilding group, a net difference, so to speak, of 23.9% in capital position in three weeks.

The "general market" perceptibly began its intermediate reaction in late June, though the Dow industrial average had made its high as early as May 29. Most of the group highs for the year to date were made between late May and early July, with the bulk of them clustered in the last week of June and the first week of July. Though perhaps over-simplified, as this type of market analysis can hardly escape being in some respects, it could be said that the movement from the highs to July 28 was partly a technical correction of such speculative excess as had accumulated in prior months of strong advance, and partly a precautionary "discounting" of increasingly probable sudden peace. But "peace readjustment" was very far from the whole story. The guesses at Washington still ranged from "perhaps a few weeks" to "maybe six months." To illustrate our point, air lines are among the outstanding beneficiaries of peace, yet to July 28 they had the largest decline of any group. Obviously, this was primarily a technical correction.

On the other hand, "technical position" appears to have had almost nothing to do with the changes subsequent to July 28. Shortly thereafter the announcement of the atomic bomb was at once taken as signalling the end of the war. Then began the most emphatic divergence between peace stocks and stocks tinged more or less with a "war flavor." It is a curious fact, not speaking too well for the general public's speculative vision, that the shipbuilding and aircraft stocks—the most indisputable "war stocks" —declined more *after* peace became an imminent certainty than they had done in the previous phase of reaction to July 28.

Regardless of whether the averages go importantly lower or are near a more stabilized phase, preceding renewed advance, the logic inherent in unusually wide variations in business prospects

implies that it will continue to be a "market of stocks." On the day this is written, the consensus of professional opinion is bearish-to-cautious. In a nutshell: "Don't buy." It may be the right view, in general—though that remains to be seen. The averages are near the lows, and holding a "line" which may or may not be as precarious as it looks. Yet in this immediate environment the writer could cite an impressive number of individual stocks which either have just made new bull market highs or which are so close to their previous highs that holders of them would not be aware of a general market reaction except by reading of it in the financial pages of the newspapers.

et us cite just a few of th[illegible] onfining the list to better-grade issues which appear to have promising prospects for 1946 and beyond, and which do not appear over-priced on such potentialities: American Tobacco "B," American Viscose, Bigelow-Sanford, Bond Stores, Borden, CIT Financial, Commercial Credit, Chrysler, Electric Auto-Lite, Industrial Rayon, Kimberly-Clark, Lone Star Cement, Marshall Field, Royal Typewriter, Ruberoid, Sears, Roebuck, Sterling Drug, United Engineering & Foundry, United Fruit, United States Rubber.

We didn't pick this list, so to speak. That is, we picked it from a larger list already "picked" by the market. We think, by and large, it is a good list. And it stands to reason that the buying which is making these stocks behave so well is not that of the speculating public, because that public obviously is not active at the moment. The odds are that it is pretty intelligent buying.

Within space limitations, the writer can not venture to discuss the prospects of each of the forty groups tabulated. Brief comment, necessarily much of it a matter of opinion and therefore open to debate, is in order on some of the more interesting groups.

Rail stocks have cancelled so large a percentage of preceding advance that the chances are the worst has been seen. Any other assumption would imply that they are in a bear market, rather than an intermediate reaction. The best issues—such as Union Pacific, C. & O., Norfolk & Western, Atchison, Great Northern and Louisville & Nashville — should meet with good support from here on.

The air line stocks, though up since July 28, have not been among the strongest groups. That is because previous advance, up to late June, had been so large. The stocks are at speculative price levels, probably too high to attract aggressive investment buying. The industry's outlook is favorable and probably the group awaits the next general speculative phase in the bull market before flying much higher.

The groups strongest recently, in order, are finance companies, tires, building, soft drinks, business machines, paper, radio and automobiles. The reasons in each instance, are obvious. All are "peace" groups. Autos are last, in this limited groups of leaders, because they had long been discounting peace prospects, prior to the intermediate reaction, more aggressively than perhaps any other group.

The finance company stocks pressed than other issues relating have been relatively more de-to the motor industry. They look attractive on potentials, but don't take 1937 highs as a guide. With bank competition, rates charged and operating margins are unlikely ever to return to best past levels. However, on the large coming volume, profits and dividends should be large enough to warrant market prices substantially higher than now prevail.

The leading tire, building and auto stocks are not unreasonable on probable longer-term earnings and in time may go quite a bit higher. Soft drink stocks have been hurt by sugar shortage. As there can not be early relief, continued rally is not to be taken for granted. Paper is not among the best industries in normal profit margins and share earnings, with few exceptions, tend to the moderate side. This group is rarely in the market limelight for very long, and the writer suspects the recent action is "one of those things."

The radio group raises a question. Competition will be more intense than ever before. The accumulated backlog of public demand might well be made up in a year. It should be no surprise if the industry is operating in a buyer's market well before 1946 is ended. Office equipment might also be "caught up," at least domestically, in a year to eighteen months, and in some types there will be large Government surpluses to wonder about. The same goes for considerable electrical equipment, while on the consumer appliance lines competition will be something to behold.

To swing to the bottom of the second table, the longer-term outlook for aircrafts, shipbuilding, rails, copper and brass and for all sections of textiles save rayon is either somewhat dubious or conjectural. The writer can't take much exception to their market mark-down, belated though it was. Oils have a good long-term prospect, but sub-average for the next year to eighteen months in terms of probable volume and profits. However, this is substantially discounted in some cases and selected oils should be watched for buying opportunities as they work down to attractive price zones. Sugar is good for some time, poor for the real long term. We suspect the prospect of "normality" will over-hang the stocks.

On further reaction, if any, attractive investment and speculative opportunities will be found, among others, in the merchandising stocks, auto accessories, drugs, chemicals, farm equipment, machinery, containers, tobaccos, public utilities, motion pictures and rail equipments.

Rail Equipments Over Near and Longer Term

(*Continued from page* 602)

Baldwin Locomotive, $34.83 for Lima Locomotive, and $10.36 for Pressed Steel Car. If EPT is eliminated, no comparable gains in net will of course accrue to shareholders as wartime operating profits will decline along with volume, but obviously the cushion will be substantial.

More importantly affecting net earnings undoubtedly will be new standards of operating efficiency in handling manufacturing costs. The "know-how" of production experts has been greatly improved by wartime experience and further enhanced by adoption of new machinery and techniques.

In spite of the splendid record in lowering costs for military production, the need for speed has often subordinated the factor of costs, and by Government permission. Given an abundant supply of raw materials and skilled workmen, as soon will be the case, profit margins should considerably widen in the hands of experienced executives, and as taxes will be eased and renegotiation of contracts no longer cloud the picture, net earnings for several years to come are likely to trend upwards. In this event, strong treasury positions may warrant more generous dividend distributions.

Substantial postwar business is in sight for makers of rails, signals and various accessories for the railways as their rehabilitation program gets under way. Limited allotments of all these items during war years have built up a huge backlog of deferred demand upon which the manufacturers can rapidly begin to draw. As operating efficiency can be sustained and improved only by employment of the most up-to-date equipment of this character, railroads no doubt will place large orders now that prospects for delivery have become realistic. Installation of radiotelephone equipment on trains, as a result of successful tests, should proceed on a major scale, and makers of brakes already have enough business lined up to keep them busy for more than a year to come, as about 25% of cars in use require brake replacements or conversion to airbrake equipment, not to mention the number of these items which will be in demand for new cars.

All in all, practically all segments of the railroad equipment industry can look to envisage several years of activity far above their experience in any period since the 1920s. Naturally, some divisions and their strongly entrenched components will benefit more broadly than others. The "big three" in the locomotive field, American Locomotive, Baldwin and Lima should enjoy a huge demand from both domestic and foreign sources, and their profit margins are normally ample. New York Airbrake, Westinghouse Airbrake, and American Brake Shoe, with replacement demand alone normally giving them a higher degree of volume stability than the builders of cars and locomotives, should enjoy an expanded opportunity through construction of new rolling stock which will require their products. Most stable of all sectors in the industry are the concerns leasing as well as building cars, such as Union Tank Car and General American Transportation, both with long dividend records

Demand for new railroad cars should broadly sustain operations of American Car & Foundry, Pressed Steel Car and Pullman. In the specialty field, General Railway Signal, Superheater and Poor & Company should do well.

The excellent postwar prospects as outlined in the foregoing have in the past been responsible for marked price strength of most railroad equipment shares. As postwar potentials unfold, prices for such equities may well further outdistance the general market. At present, price-earnings ratios are still moderate and yields on basis of current earnings fairly attractive. With good earnings and possibly more liberal dividends ahead, further price appreciation prospects are by no means lacking. However, the industry's extreme sensitiveness to cyclical swings impart marked speculative characteristics.

Around the World

(Continued from page 591)

lems, retain the free trade system. To help the British make up their mind would evidently cost us about $6 billion, and after all, we don't know whether after a few years of hard going they might not change their minds again.

* * *

Of the Western European countries, the Netherlands has probably suffered most because of the dislocation of its economy and the devastation of its agriculture and industries. Before the war the Netherlanders made their living largely by financing and carrying international trade. The country's economy was reorganized to fit "the new order," with the result that Dutch unemployed were sent to every corner of Nazi Europe. The Dutch estimate that their national wealth (excluding overseas investments) calculated in 1938 at about 30 billion guildres, has been reduced by about 25 to 30 per cent as a result of the flooding of land, the wear and tear on machinery, depletion of stocks, and war damage in general. In addition, the Dutch Government had to pay in occupation costs about Fl 8 billion, the equivalent of about one-third of the total production in the 1940-1944 period. The country was drained of the simplest essentials of life, but the available purchasing power, as measured by the expansion of note circulation and bank deposits, was increased under the German rule about 4½ times.

The position at the time of the liberation was grim but not without hope. About one-half the merchant fleet of 2.4 million tons that was sailing for the Allies remained. There was about $1,700 million in gold and dollar assets in the United States and a considerable pound sterling balance in London that could be used almost immediately for rehabilitation and reconstruction. In addition, the Netherlands obtained loans of $100 million from the United States, $25 million from Canada, and a stabilization credit of $24 million from Belgium.

Following their liberation. the Dutch set to work restoring their country. The rehabilitation of the flooded Walcheren Island area will take years, but the Wieringer Meer region will probably be dry before the winter sets in. There is much demining and rebuilding to be done, but the housing and agricultural situation begins to look brighter. As elsewhere in Europe, there is much social unrest; the coal mines will probably be socialized, though banks may escape. Dutch labor seems to be disorganized and leaderless, possibly because the trade unionists were among the collaborators, along with some of the industrialists.

Early in July, steps were taken to cheek inflation. All banknotes of 100 guilders or more ceased to be legal tender. They were turned in to the banks and blocked in special accounts that are to be used for paying taxes. The liberation of the Netherlands East Indies, apparently without great destruction, should prove a great boon to that part of the Dutch community which lived off international trade and overseas investments. It is quite possible that from now on the recovery in the Netherlands will proceed at a faster tempo than elsewhere in Western Europe.

Denmark is another European country which took steps last month to check inflation by bringing about a better balance between the volume of available goods and the purchasing power in the hands of the public. All notes bearing the date 1943 or earlier (issued prior or during the German occupation) have been called in and blocked in bank accounts to be used, as in the Netherlands, for paying taxes. At the same time the Government is said to be making an extensive survey of other private holding of liquid assets.

Denmark's contribution to the German war effort is estimated at about 8 billion kroner, equivalent to one year's national income. The financing of German levies led to a huge credit expansion, reflected in the doubling of demand deposits and the trebling of note circulation. In contrast with other Continental countries little damage has been done to the country's industrial or transportation equipment except in shipping. About half of the merchant marine, the earnings of which contributed important foreign exchange resources, was sunk during the war. This may mean that the importation of fodder grains and oilcakes will be limited, and hence the rebuilding of Denmark's hog and poultry industry may be slower than anticipated.

The Danish economy, which was largely dependent upon the British market prior to the war, was reorganized by the Germans to fit the "New Order" economy. For example, the hog and poultry numbers were reduced by about two-thirds to the level of fodder produced locally or imported from the Danubian area. Now the whole economy, including industry, will have to be reconverted to the needs of non-German markets. Luckily the dairy herds have been reduced but little, so that exports to Great Britain may be resumed at an early date. There is at present a Danish trade delegation in London preparing the ground for the general resumption of trade.

* * *

A Czechoslovak trade mission was reported visiting London last month with the view of exploring a trade treaty with Great Britain. Another mission is scheduled for a visit to Washington for the same purpose and apparently also to get a loan, as well as to reopen negotiations for a new reciprocal trade agreement, the old one having lapsed following the country's occupation by the Germans in 1939. The Czech industries have weathered the war in fairly good shape. For example, the cotton mills can put into operation immediately some 2.9 million spindles out of the pre-war 3.2 million. The country's industrial potential has been increased by the Germans, who developed aircraft and optical industries and built a huge synthetic oil plant in the northwestern brown coal area. The railroads are evidently functioning, and there is even enough coal. The glass and china industries are reported to have large enough stocks of pre-war goods to resume exports immediately.

The great need of Czechoslovakia is raw materials, mainly cotton, wool and non-ferrous metals. The Czechs believe that, given raw materials, they can help effectively to supply Central and Southeastern Europe with greatly needed goods, and put their own country into good shape within a year or two. The big problem is how to get the raw materials to them, with German ports wrecked, the navigation on the Elbe suspended, and the railroads in the neighboring countries near collapse. The second problem is what to use for money. Out of the pre-war gold reserve of $92 million, only about $25 million are left in London; the $26 million that were in Switzerland were said to have been taken over by the Germans, and it will probably take years to get them released. Hence the Czechs are hoping for large raw material credits from Great Britain and the United States. They have set their sights at a figure as high as $1,000 million; undoubtedly they will have to be satisfied with much less, probably $70 to $100 million.

Uncertainty about the "mixed nature" of Czechoslovakia's economy will probably be another difficulty. The country is now run by the socialists and communists, and about 60 per cent of the industrial enterprises are said to be "masterless," run by workers committees, either because they are in the process of nationalization or because the management has been suspended for collaborating with the Germans. The nationalization of the banks, coal mines, heavy industry and possibly of all large enterprises is in the cards, although the Government has taken pains to explain that, as in France, "the decision about the future ownership lies with the legislative bodies, about to be elected."

At the same time it must be admitted that the presence of the Russians has not been without a sobering effect, even on the workers. The Czechs will hardly go communist as a nation, although politically they may remain pro-Russian for security reasons. The security of the Soviet orbit will mean for them a lowered standard of living for many years and possibly some loss of political and economic freedom. Czechoslovakia will be worth watching, because it will be a test case for Western and Soviet ways, and the Czech trade treaties may set a pattern for the treaties of other nations in Southeastern Europe.

Weighing the Prospects for Farm Equipments

(*Continued from page* 604)

bines to plows, and from farm wagons to poultry feeders, all of which have been in scant supply for nearly five years past, and which record farm income promises to pay for on a vast scale. Cotton pickers and other newly developed agricultural machines are said to have particularly awakened southern farmers to new standards of operation thus broadly expanding domestic sales potentials for the equipment manufacturers.

While all of the foregoing optimistic aspects should add up to a strongly sustained postwar volume for the industry, much more important is the question how net earnings are likely to reflect the improvement. In common with all

major industries, this one will continue to have prices under Government control for a while yet whereas rising wage costs already threaten to squeeze harder than ever upon profit margins. Even before the Japanese surrender, unions important among workers in the farm equipment industry have repudiated their wartime no-strike pledge and are demanding a 30% rise in wages. But even if wages and other operating costs do cut into profits, within reasonable limits, offsetting factors should combine to establish net earnings of the leaders in the industry on a satisfactory, and probably excellent basis.

Many concerns will greatly benefit when excess profit taxes no longer take their wartime toll of taxable earnings, and compared with most other industries, pre-tax net of farm equipment makers should shrink little if any under the impact of military cancellations. Also, normal production under high pressure conditions may tend to reduce unit costs in the light of newly acquired operating efficiency. Allis-Chalmers in 1944 alone paid $36.5 million in EPT taxes, equal to $20.58 per share on its common stock, and as total cost of sales for the year mentioned, including depreciation and development was $304 million, EPT added about 12% to deductions from profits in arriving at final net. Figures covering wage costs alone are not available, but based upon them entirely, the percentage discussed would rise materially. With repeal of EPT taken for granted, it appears certain that operating costs could rise substantially without serious impact on net earnings. The above illustration applies in varying degree to most large concerns in this industry. When price ceilings vanish from the scene, as doubtless will happen eventually, only competition will determine how widely profit margins may be maintained.

With 1500 competitors in the farm equipment field, business is normally subject to periodic price cutting but as usual, the international scope of sales has concentrated large volume in the hands of a few relatively large concerns. If net earnings gains accrue over the intermediate term, as will almost certainly be the case if taxes are reduced, corresponding liberalization of dividend policies of the major companies should follow. Factors supporting this premise are the strong working capital position attained during war years and the relaxation of policies to set up reserve funds from earnings. Additionally, rapid determination of net will now become possible with renegotiation no longer confusing the picture. All said, the dividend outlook during near term postwar years for many concerns in this industry appears to be promising.

Major reliance of the industry upon a well sustained level of farm income, and that in turn dependent upon general prosperity for all consumer classes, makes its progress sensitive to cyclical swings in business, thereby imparting a speculative tinge to the shares of its component companies.

During the current bull market, farm machinery shares have consistently outrun the general market but on the other hand, during the latest reaction, their price decline percentagewise has been rather greater than that of the general list. Currently prices are far below their 1937 highs. Yields on the whole are relatively unattractive and price-earnings ratios are adequately discounting near-term potentials.

It must be recognized, of course, that it may require substantial increase in production of normal lines to offset increased costs and improve profit margins. If some amelioration of the tax load occurs in 1946—as it almost surely will—coincident with well maintained large demand for agricultural machinery, the benefit to the companies could be quickly reflected in improved net, which in turn may provide the basis for further price appreciation of farm implements shares. Essentially, improvement in operating profit margins must be derived mainly out of increased production, greater efficiency and enlarged sales, since it seems rather doubtful — for competitive reasons, whether any major advance in agricultural equipment prices will eventuate.

Economic Implications of Postwar Debt Policy

(*Continued from page* 583)

corporations will be obliged to dispose of much of their bond holdings to obtain working funds, when banks may be less eager to invest further and heavily in governments and when, concurrently, Government expenditures will continue to run high.

Under the circumstances, the idea that we can have a balanced budget, substantially lower taxes and possibly even debt reduction appears far-fetched. Little wonder that fiscal authorities are ready to resist any congressional move to "go wild" in matters of tax reduction, and little wonder that many observers see little likelihood that the national debt will be reduced substantially during the next ten or twenty years. Naturally, it all depends on fiscal policy. That policy currently foresees a tax policy integrated with an over-all fiscal policy so as to prevent both inflation and deflation. As Mr. Vinson, our new Secretary of the Treasury, put it the other day: "Taxes should be levied in such a way that they have the least harmful effect on the expansion of business investment and the creation of jobs because productive employment is the source of our standard of living, of all income, and of the revenue which the Government collects from taxes."

This is sound theory and if carried out would mean a radical departure from current policy, for today, about half of Federal revenues come largely from taxes which must be regarded as taxes upon the creation of new jobs.

It is also a tax philosophy which clearly recognizes the fact that our fiscal policy as a whole —as currently envisaged—stands or falls with maintenance of high-level economic activity, or failure to achieve such activity. Hence the stress laid upon full employment, high national income and a high gross national product. In 1944, the interest burden was approximately 2.4% of national income; in the postwar, assuming a national income of between $140 and $150 billion (as against $160 billion in 1944), it would be somewhere around 4%. Should postwar national income drop to $120 billion, the annual interest burden would amount to 5%.

The primary task is to achieve a ratio between interest burden and national income that would render the former tenable without adverse economic effects, and to pursue a policy under which taxes will not restrict business more than the interest payments stimulate it. Preferably, the goal

It doesn't make sense, folks

A man's a fool to go around with his pants pocket burning with extra folding money when he ought to buy an extra Bond, because that loose lettuce is the stuff inflation is made of. When that extra dough goes hunting for civilian goods (that are as hard to find as Crosby in a tuxedo!), it tends to push up prices. Besides, it doesn't make sense when twelve million kids are fighting our battle for any of us to hike up the cost of living by buying anything we can live without.

Bob Hope

ONE PERSON CAN START IT!

You give inflation a boost . . .

—when you buy anything you can do without

—when you buy above ceiling or without giving up stamps (Black Market!)

—when you ask more money for your services or the goods you sell.

SAVE YOUR MONEY. Buy and hold all the War Bonds you can afford—to pay for the war and protect your own future. Keep up your insurance.

HELP US KEEP PRICES DOWN

A United States War message prepared by the War Advertising Council; approved by the Office of War Information; and contributed by this magazine in cooperation with the Magazine Publishers of America

is to use the debt constructively, that is to use it as an instrument of business stimulation if possible. That this will not be a simple task should be readily apparent from the foregoing. That it will be virtually impossible, in the long run, without a balanced budget is equally obvious.

As mentioned before, key point of our future debt policy is achievement of wider diffusion of debt ownership. Such a policy would probably mean an increase in interest costs but this may not be too high a price to pay for the resultant minimizing of the debt's inflationary potentials. Broader diffusion of debt ownership, if it can be secured, would be the best evidence of general confidence. A sober effort towards debt reduction—no matter how gradual—would greatly contribute to maintenance of such confidence and in itself become a helpful factor towards broadening debt ownership.

Answers to Inquiries

(Continued from page 610)

has disposed of substantially all of its holdings in certain self-contained utility companies which were large enough to function without the assistance of the parent company. The management desires to continue to develop its upstate Pennsylvania gas properties and would acquire additional property which would fit into the Eastern Pennsylvania gas group. In January, subsidiaries of the U. G. I. purchased the gas properties of the Metropolitan Edison Co. The company's principal holdings now are the preferred and common stock of Niagara Hudson Power, the preferred stock of Commonwealth & Southern, the preferred stock of Kansas City Gas and the common stock of Consumer's Gas.

The company continues to maintain a strong financial position and consolidated balance sheet dated December 31, 1944. showed total current assets of $15,805,727 as compared with total current liabilities of $6,942,270, a ratio of better than two for one. Cash and U. S. Treasury securities, alone, total $13,725,302 or nearly twice the amount of total current liabilities. Total assets amounted to $152,490.283 and surplus amounted to $55,760,429. The equity per share of common was $38.10 while the estimated liquidating value of all assets is about $24 per share.

There are now only 2,325,000 shares of common stock outstanding, the par value having been changed in September 1944 and stock converted by issuance of one new share for each ten old shares. The current market price 17¾ is equivalent to $1.775 for the old common stock.

With conditions as they are in this situation, it is difficult to make any prediction with respect to earnings and future dividend payments. A dividend of 35 cents was paid on February 28, 1945. The market action of this stock will be largely determined by the residual value of underlying securities. The price range this year has been: High 18⅛; Low 13¾; Last 17¾.

Two Growth Companies

As a subscriber to the Magazine of Wall Street, and an attentive reader of Mr. Miller's articles, I am asking for some advice.

During the War all of our investments have been War Bonds—$10,000 in "G's." We are in late middle age, and security is our greatest need, but with four dependents, we must have a fair chance at reasonable appreciation of our assets.

We now have $1500 for investment, a small sum to be sure, but vital to us. We have had common stock of Colgate Palmolive-Peet, or Celanese Corporation in mind. Would either or both of these be a desirable buy for us when the market reaches a reasonable buying stage?

I enclose envelope for reply. Thanking you for your courtesy, I am,

—H. B. M., Atlanta, Ga.

We have given careful consideration to your objective but, with four dependents, note your need also for reasonable appreciation.

The investment during the war of all your funds in war bonds, Series "G," displays a patriotic spirit that is admirable and also sound investment procedure.

BOOK REVIEWS

BOOKS THAT WILL BE OF INTEREST TO YOU!

SELLING WITH COLOR

By Faber Birren
McGraw-Hill Book Company 244 pp. $2.50

In modern merchandising, eye appeal has grown far to outdistance personal persuasion as a practical selling factor. The most effective use of color therefore has become a real science, based upon tested records and extensive research. Sales executives, stylists and designers will find in this book, written by a leading exponent of scientific color practices, a valuable supplement to their own personal experience in attracting consumer attention.

A. WOOLCOTT
His life and his world

By Samuel Hopkins Adams
Reynal & Hitchcock 386 pp. $3.50

No more colorful figure than Alexander Woolcott ever highlighted our literary world, and as an old and intimate friend, Mr. Adams was a happy choice as author of his biography, for in this book he was able to trace the early factors which influenced the emotional development of a witty but eccentric personality. Rarely has a man had more homes and more illustrious friends than Mr. Wooleott and this brilliant portrait of him is packed with human interest.

THE BOGEY OF ECONOMIC MATURITY

By George Terborgh
Machinery and Allied Products Institute
263 pp. $3.00

With the conviction that certain theorists in Washington still think our economy is permanently stalemated by declining growth in population and dearth of new industries, this former economist with the Federal Reserve Board ably proves the virility of industry and refutes all suggestions that only by pump priming and deficit spending on the part of Government can the nation pull through the difficult days ahead. The author claims that the economy may be poisoned by excessive taxation to support unwholesome Government spending during future years.

MEXICO

By Fritz Henle
Ziff-Davis Publishing Company $4.00

As a remarkable photographic portrayal of people and scenes in Mexico, these 64 large pictures will enhance the long established reputation of Mr. Henle in his profession. The briefly descriptive reading matter is written in both English and Spanish. Included in the book are portraits of Mexico's leading artists and musicians, dance scenes and character portraits of the country's interesting citizenry. The technique exhibited is of exceptionally high quality.

MODEL BILATERAL CONVENTIONS FOR THE PREVENTION OF INTERNATIONAL DOUBLE TAXATION AND FISCAL EVASION.

League of Nations 85 pp. $1.00

This official report of the Second Regional Conference held at Mexico, D.F. in July, 1943 is distributed by Columbia University Press. The Convention was designed to standardize agreements which would prevent double taxation of citizens of the contracting States in cases where income was derived from numerous specified sources, or where death duties or taxes entered the pictur. Procedure to implement the agreed upon improvements is also set forth in detail.

Of the two common stocks you submitted, COLGATE PALMOLIVE-PEET is the more conservative. While the principal business of this company is the manufacture of soap, about 25% of sales normally are in tooth paste, shaving cream, and the toilet powder field.

The termination of the war will permit the importation of cocoanut and palm oils, thus enabling the company to resume production of finer toilet soap.

Earnings in recent years have been fairly stable, as shown by the following figures:

1941 earned	$3.09
1942 "	2.46
1943 "	3.10
1944 "	3.30

Dividends paid in 1944 amounted to $1.75 a share.

This company has an able management and sales have shown a progressive increase. Peacetime outlook for domestic and foreign business is favorable. This stock, if purchased at a favorable level during a period of market unsettlement, has good long term attraction.

Sales of CELANESE CORPORATION OF AMERICA were $101,000,000 in 1944, an alltime high. Profit margin increased slightly to $2.87 a share, subject to renegotiation, compared to $2.83 in 1943, and $3.43 in 1942. First six months of 1945 earnings amounted to -1.55 a share. Financial condition of company as of December 31st, 1944, indicated a strong position with current assets of $58,000,000 compared with current liabilities of 6.4 million—cash and equivalent totaled $41.0 million. During the war an additional 6.3 million dollars were spent on plant additions. The substantial amount of securities ahead of the common stock places the shares in the highest leverage position among major rayon equities.

CELANESE has excellent growth prospects as there should be a substantial increase in the use of rayon over the prewar level, and also increased demand for plastics and chemical products of this company.

Because of large senior capitalization, dividends on common stock may be conservative. So far in 1945, $1.00 has been paid. In 1944, 50c was paid plus three stock dividends of one share for each 70 shares held. On a reaction in the market, this stock has good long term appeal.

Houdaille-Hershey Corp.

I understand Houdaille-Hershey Corporation has a new financing plan. Will you please give me particulars of this plan.
—A. C., Topeka, Kansas

Houdaille-Hershey Corporation a leading manufacturer of automobile bumpers and other equipment has filed a registration statement with the Securities & Exchange Commission, naming an underwriting group to offer $6,000,000 sinking fund debentures and 190,000 shares of $2.25 cumulative convertible preferred stock.

The proposed financing will provide for the retirement of all outstanding Class "A" no-par value stock, and furnish additional funds for expansion of plants and equipment.

Of the new preferred 173,500 shares will be offered—share for share, plus $5.00 cash and a cash adjustment of dividends — to Class "A" stockholders. The new debentures will have a sinking fund sufficient to retire $150,000 principal amount semi-annually while the new preferred will be convertible into common stock at varying rates through September 1, 1955, only.

As I See It!

(*Continued from page* 577)

the German questions, it is certain to coincide with our basic policy not only to help strengthen Western Europe but to stabilize economically and socially the Europe that we helped rescue by military force, and to assist a revived France to take a leading part in this effort. Yet we may differ as to ways and means.

Washington may well take the view that assent to the French demands might not only lead to new irredentist areas, creating future trouble that would militate against permanent pacification of Europe but might tend to orientate Germany towards Russia, advancing the westernmost line of Russia's sphere of interest from the Oder to the Rhine. Also, such a course would seem to give little recognition to the new strategic concepts ushered in by new weapons and the redistribution of power.

Thus when the French express dissatisfaction with the Potsdam decisions because these left the Rhineland and the Ruhr within the borders of a united Germany (what's left of her) instead of complying with the French view that the Rhineland at least should be transformed into a buffer state against a possible resurgent enemy, they hardly consider today's political and economic realities, let alone military realities. Instead, they seem to view the situation as though the strategic concepts of 25 years ago were still valid and useful today. From the French viewpoint, the solutions demanded may be sound in principle but are they practical? They seem to follow strictly traditional lines of policy that in the past have not worked too well.

Undoubtedly for France, weakened and disorganized politically and economically, the new world situation is a matter of grave concern though up till now, pressing immediate problems of reconstruction have tended to make her lose sight of the longer range problems posed by her relative decline as a European power. De Gaulle's visit to Washington reflects new awareness of a changed world and also of the need for closer cooperation with the Western powers and especially with the United States, in the interest of France no less than of Europe and world peace.

It has been said that de Gaulle's visit marks a turning point in French foreign policy but if so, this isn't enough. In the last analysis, fulfillment of French aspirations for European leadership depends on the wisdom of her policies, internal as well as external. Economically, France no doubt needs a "shot in the arm" and will get it. But she also needs a strong will to help herself, to discard her present lethargy and go to work. It is a curious fact that while French liberation has done away with the newer problems such as the threat of German domination, it has not solved France's old problems, the ones that existed long before the war and were in no small part responsible for her defeat. If these are tackled realistically and wisely, France need not be concerned over her future role in Europe.

At any rate, de Gaulle's visit seems to augur well for French-American rapprochement after the many misunderstandings of the past, particularly if we consider the fundamental harmony between French and American aims in the construction of the postwar world.

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p., N.Y.C